



University of Alaska

Budget Discussion

&

Debt Profile

House Finance Subcommittee

February 4, 2020

Agenda

- Appropriation Structure
- Budget Planning
- Current Year (FY20) Impacts
- Debt Profile

Appropriation Structure

Appropriation Structure

- University Board of Regents (BOR) submits unified budget request based on comprehensive budget development and review process
- BOR manages competing interests and regional priorities across the state
- Less money means less flexibility, and difficult decisions
- Single appropriation is most efficient means for internal budget management
- Single and multiple appropriations have been employed over the years
- Using multiple appropriations, shifts control and decision-making from BOR to the Legislature
- Multiple appropriations create inefficiencies and push additional administrative costs to local campuses
- Regardless of appropriation structure, BOR maintains sole fiduciary responsibility for all funds appropriated to UA

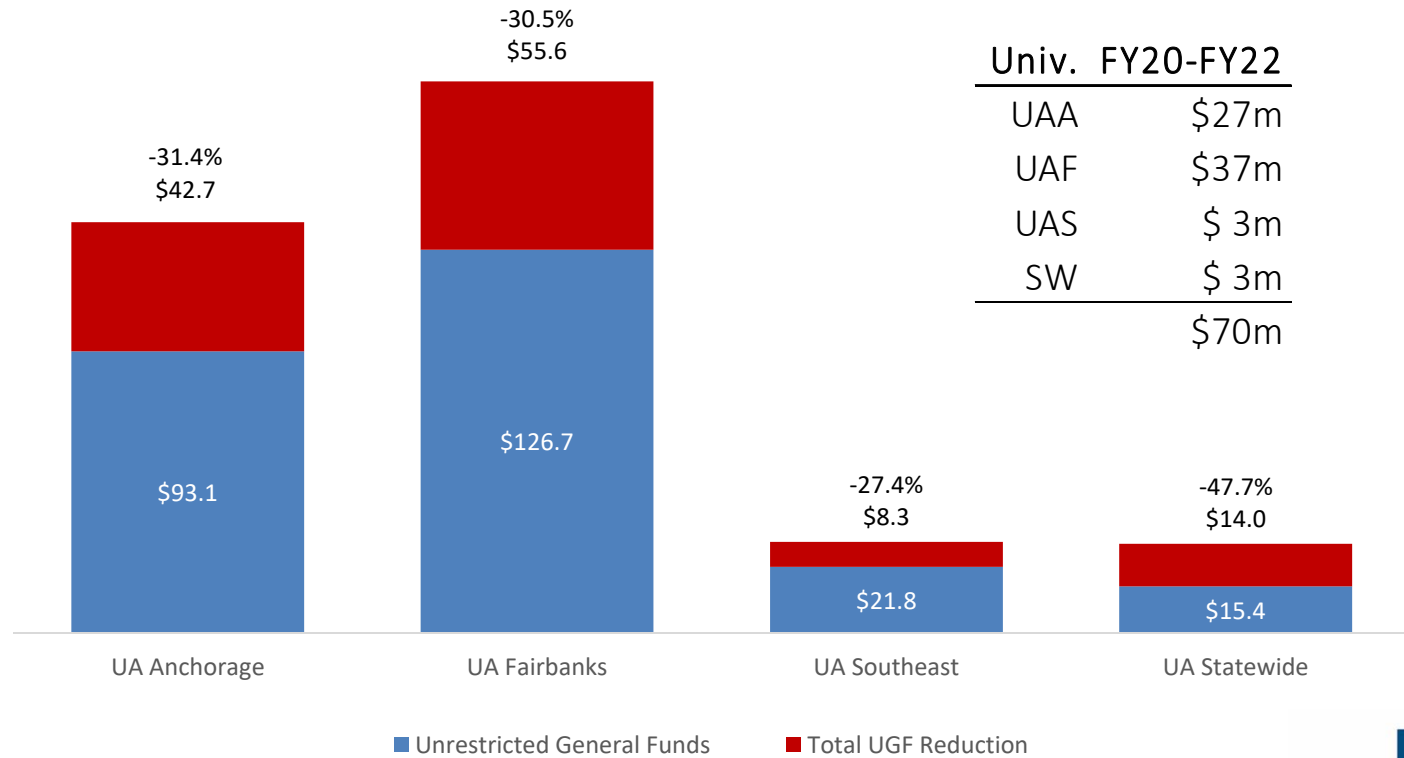
Appropriation Structure

- FY14 – FY19 UA received one operating budget appropriation
- FY20 UA received two operating budget appropriations
 - UAF, UAA and Statewide (SW)
 - UAS (Juneau, Sitka, Ketchikan) and other community campuses
- Entire \$25Mill FY20 cut was taken in the UAF/UAA/SW appropriation
- Reimbursable Service Agreements (RSA) must be used to move money across appropriations – law makes it deliberately cumbersome
- System office provides non-duplicated services to campuses
- FY20: \$2.3Mill UGF shared services charged back via RSAs
- Year-to-Date, 45 RSAs for things like network fees, insurance, Title IX compliance costs, and other shared services

Budget Planning

Funding History & Projection by MAU

(FY14-FY22 UGF Millions*)



Univ. FY20-FY22	
UAA	\$27m
UAF	\$37m
UAS	\$ 3m
SW	\$ 3m
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	\$70m

MAU: Major Administrative Unit

* FY22 \$20M UGF reduction distributed based on FY21 % of total UGF.

3-Yr Compact Budget Plan

	FY20 Current	FY21 Proposed	FY22 Estimate	Total	Comments
Expense Factors					
• State UGF Reduction	25.0	25.0	20.0	70.0	Base Budget Cut
• Investment	9.1	12.1	TBD	TBD	
• Strategic Initiatives (based on BOR Goals & Measures)*	5.0	5.0	TBD	TBD	Reallocation within MAU
• Compensation (Equity and Market)	3.4	3.2	TBD	TBD	Reallocation within MAU
• Compensation (General Market)		3.9	TBD	TBD	Reallocation within MAU
• Title IX / Safety	0.7				Reallocation within MAU
Total	34.1	37.1	TBD	TBD	

* In February and June the UA Board of Regents (BOR) will reevaluate UA's Goals & Measures and specific investments necessary to achieve the goals.



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FY21 Budget Proposed

	FY21 Proposed	UAA	UAF	UAS	SW/EE
Expense Factors					
• State UGF Reduction	25.0	9.1	12.3	1.9	1.7
• Investments	12.1	4.5	6.0	0.8	0.8
• Strategic Initiatives (based of BOR Goals & Measures) *	5.0	1.8	2.5	0.4	0.3
• Compensation (Specific Market)	3.2	1.3	1.6	0.1	0.2
• Compensation (General Market)	3.9	1.4	1.9	0.3	0.3
Total	37.1	13.6	18.3	2.7	2.5

* In February and June the UA Board of Regents (BOR) will reevaluate UA's Goals & Measures and specific investments necessary to achieve the goals.

Current Year (FY20) Impacts

FY20 Budget Allocation

	FY20 Current	UAA	UAF	UAS	SW/EE
Expense Factors					
• State UGF Reduction	25.0	9.2	12.5	0.0	3.3
• Investments	9.1	3.2	4.5	0.3	1.1
• Strategic Initiatives (based of BOR Goals & Measures) *	5.0	1.8	2.5	0.0	0.7
• Compensation (Equity & Market)	3.4	1.3	1.7	0.2	0.2
• Title IX/Safety	0.7	0.1	0.3	0.1	0.2
• Shared Cost Allocation	0.0	0.0	0.0	2.3	-2.3
Total	34.1	12.4	17.0	2.6	2.1

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FY20 Budget Impacts: UAA

Target: \$12.4 Million (\$9.1 UGF Cut + \$3.2 Strategic Investment)

Administration: \$3.8 million

- Central UGF Savings (\$3.4 million) - Includes FY19 staff benefits savings (decreased by faculty promotions); SB rate increase costs, 1% salary increase 800k base budget loaded, FY20 base awards);and the previous cut distribution already covered from central funding.
- SW Video Conferencing Expense to Tuition Funding (\$252.2 thousand) - Move videoconferencing expense paid from UGF to 20% tuition funding. Will decrease central contingency funding
- HR Redesign Savings (\$111.5 thousand) – Savings to UAA from HR redesign.

Academic Program & Student Services: \$5.9 million

- Academic Reductions (\$4.4 million) - Term & faculty, reductions, operations
- Confucius Institute non-renewal (\$110.1 thousand) - Director
- Student Affairs Reductions (\$442.0 thousand) - Eliminate 5 positions & operations
- Athletics Operations (\$160.0 thousand) - Learfield contract changes, will decrease existing base deficit for Athletics Sullivan Arena Non-renew (\$200.0 thousand) - Move into Wells Fargo in FY20 for two years, then need to expand seating with renovation, will decrease existing base deficit for Athletics
- Community Campuses Services (\$670.0 thousand) - One-third of \$1.2M = \$390,000; UA SW Risk Insurance \$280,000 (\$1.452.0 in SW planning outline)

Reduced Facilities Maintenance: \$2.4 million

- Decrease UAA Facilities Deferred Maintenance general fund (\$1.3 million)
- CERC lease non-renew (\$511.0 thousand)
- University Center Lease Revenue (\$400.0 thousand)
- Facilities – custodial (\$150.0 thousand)

One-time fund balance \$0.3 million

- May increase or decrease due to timing differences in listed reductions

FY20 Budget Impacts: UAF

Target: \$17.0 Million (\$12.5 UGF Cut + \$4.5 Strategic Investment)

Approach

- Combination of vertical and horizontal reductions
- Compensation adjustments managed within units
- Monetization of assets to generate one-time funding

Actions Taken

- Reduced (unit) general fund budgets UAF-wide (All) \$9.5M
- Reduced base funding to KUAC, committed capital to help transition to primarily private/corporate funding (Public Service) \$0.5M
- Reduced facilities maintenance (Administration) >\$3.0M
- SW HR redesign (Administration) \$TBD
- Procurement to UA shared service (Administration) \$TBD
- Reductions to Organized Research units (Research) \$0.7M
- Consolidated large animals at LARS, relocated reindeer (Research) <\$0.1M

Actions in Progress

- Academic program & department expedited reviews
- Administrative reviews
- Reducing campus footprint
- Reducing deferred maintenance backlog
- Exploring Public Private Partnerships (P3) & monetization of appropriate campus assets
- Using strategic reserves or one-time funding for bridge
- Solicited shared services proposals for efficient delivery of services
- Continue focusing on revenue generation

FY20 Budget Impacts: UAF

Target: \$17.0 Million (\$12.5 UGF Cut + \$4.5 Strategic Investment)

Additional Detail:

- Tightly managing curricular offerings, minimizing low enrollment courses, increasing course caps, hiring fewer adjunct faculty
- Increasing revenue in high-quality online courses/emerging demand areas
- Selling facilities, reducing maintenance, moved employees to Lathrop Hall
- Exploring & expanding shared services for support functions
- Facilities Services reorganization & reduction in staff via outsourcing
- Eliminated \$100K contract for FNSB public bus transportation without change in routes/access to campus
- Eliminated or held staff & faculty positions unfilled in many areas
- Reducing contractual, travel, commodity expenses in many areas
- Disposed of ATCO units, relocating Toolik Lake Research Station offices
- Where allowable, transitioned staff to sponsored/restricted funds
- Reduced library subscriptions & suspended research computing refresh
- Utilizing strategic investment funds to fill key faculty/research roles
- Continuing to reduce Residence Life footprint/operating expenses by closing or repurposing Stevens, Lathrop, Sustainable Village & Nerland Halls
- Reallocated resources to Office of Equity & Compliance for staffing key TIX investigator positions & training support
- Funding marketing efforts through strategic reallocation, reducing staff
- Using one-time funds as bridge as other organizational decisions are made where compliance & safety functions should not be further reduced

FY20 Budget Impacts: UAS

Target: \$2.6 Million (\$0.0 UGF Cut + \$2.3 Shared Services + \$0.3 Strategic Investment)

Academic Program & Student Services: \$1.2 million

- Workload adjustments, reduced adjuncts, and GF reduced with tuition (\$876.6 thousand)
- Faculty and Staff Reductions (\$370.9 thousand)

Administration: \$864 thousand

- Shift tuition funding for waivers (\$316.9 thousand)
 - UAS student waivers are currently funded using a combination of UFB and tuition. This strategy would fund fully from UFB and shift the tuition component to replace reduced GF
- Deallocate benefit savings (\$356.2 thousand)
- Deallocate centrally pooled GF (190.5 thousand)

Reduced Facilities Maintenance: \$480 thousand

- Reduce utilities and term administrative position (\$57.7 thousand)
- Replace GF with Facilities fee (\$133.0 thousand)
- Replace GF with UFB Facilities R&R (\$289.1 thousand)

FY20 Budget Impacts: SW

Target: \$2.1 Million (\$3.3 UGF Cut + \$1.1 Strategic Investment - \$2.3 Shared Services Recoupment)

\$1,800,000

- Reduction in staffing (primarily vacant positions) from integration and redesign of administrative functions, including but not limited to, financial services, information technology, human resources, procurement and institutional research.

\$300,000

- Reduction in discretionary travel, non-essential contractual services, and software contracts. In addition, more efficient processes, such as electronic payments, new travel system and new video conferencing platform

University Debt Profile

Introduction and Purpose

To provide an update on the University of Alaska's (UA) debt profile and introduce how debt relief could be a prudent and helpful financial move.

Relevant Statutes

- AS14.40.040(5) – UA may issue debt
- AS14.40.253 – Notice and approval requirements
- AS14.40.254 – Technical matters regarding UA Revenue Bonds
- AS14.40.257 – Provides UA ~\$1.2m annual debt reimbursement for:
 - UAA – CTC at University Center
 - UAS – Joint Readiness Center

Debt Profile and Context

- Annual Debt Service = \$28 million (UGF component is \$22.5 million)
- Principal Outstanding = \$297 million
- Debt service is 5% of UA's unrestricted revenues, and has increased as revenue (UGF & Tuition) decline
- Fixed costs reduce management's capacity to make strategic reductions as revenues decline
- Examples of debt-financed projects: UAF Power Plant, UAF Engineering Building, Deferred Maintenance

Debt Profile and Context

- Credit rating downgrades in Fall 2019, due to large UGF cuts and negative enrollment trends
- Moody's rating: Baa1 with Negative Outlook
- Standard & Poor's rating: A+ with Stable Outlook
- Lower credit ratings make new debt more expensive and refinancing less viable
- Continued financial headwinds: UGF & Tuition
- All of the above limit UA's debt capacity

Debt by Major Administrative Unit

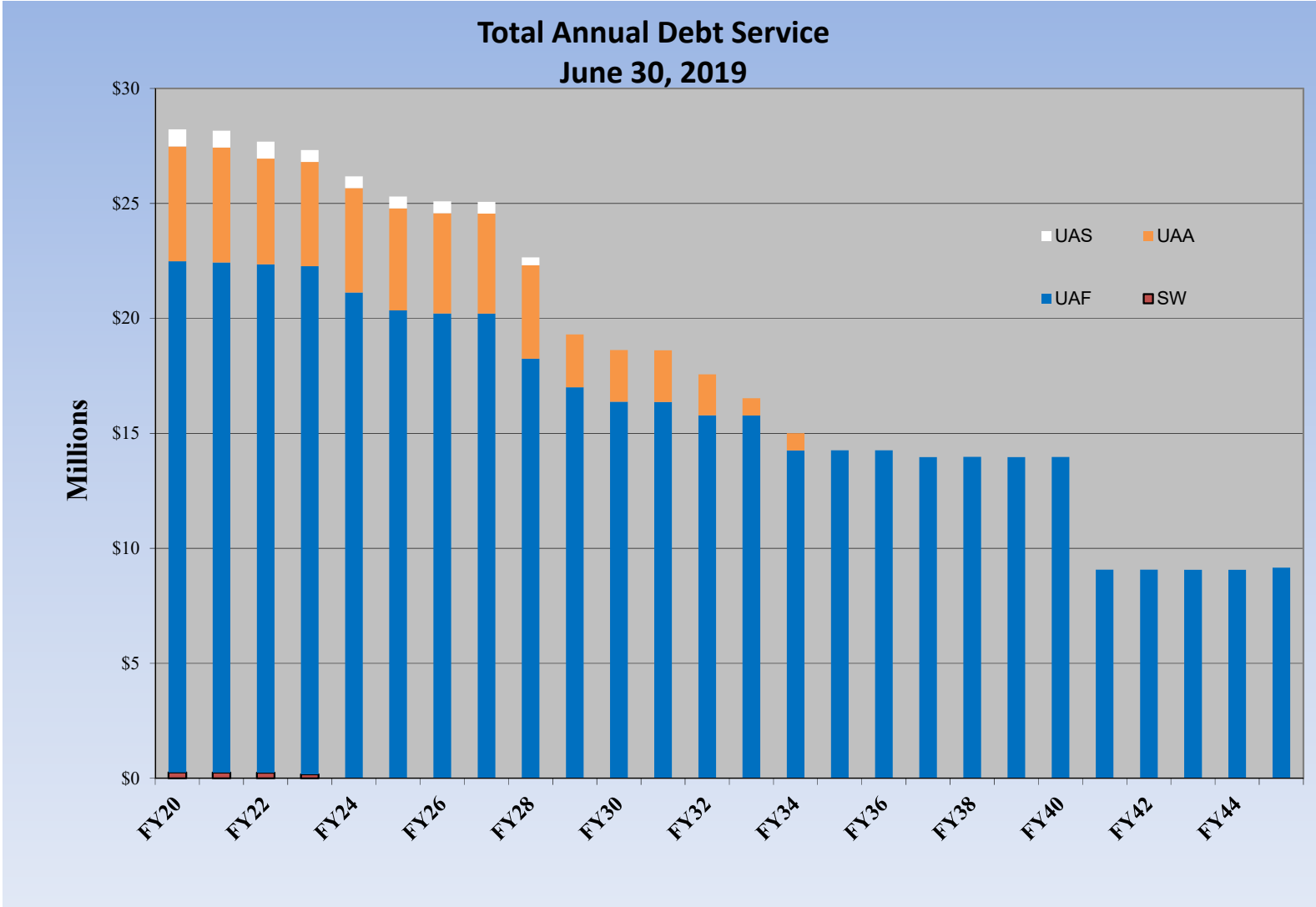
Debt Financed Project Description	FY20 Debt Service	Principal Outstanding as of 6/30/20	Remaining Debt Service: FY21 to Final Maturity	Maturity Date(s)
University of Alaska Fairbanks (UAF)				
Combined Heat & Power Plant - Bond Bank Loan	\$ 5,589,588	\$ 82,890,000	\$ 139,701,694	10/1/2044
Combined Heat & Power Plant - UA Revenue Bond	4,900,000	61,920,000	97,943,000	10/1/2039
Engineering Building	2,121,800	30,950,000	52,993,075	10/1/2044
Dining Hall - Wood Center Addition	1,384,375	23,315,518	45,467,532	10/1/2044
Murie Building (the Life Sciences Building)	1,515,200	15,130,000	19,698,550	10/1/2032
Deferred Maintenance - Various Facilities	1,966,450	11,750,000	13,761,025	10/1/2026
Deferred Maintenance - Various Facilities	946,000	6,405,000	7,571,100	10/1/2027
West Ridge Research Ctr & Other Science Facilities	1,459,550	9,220,000	10,820,338	10/1/2030
Biological Research & Development (BiRD) Facility	287,788	3,570,000	4,639,044	10/1/2035
Coal Water Project - Old UAF Power Plant	775,350	2,875,000	3,106,106	10/1/2023
Central Campus Chiller Facility - Old UAF Power Plant	213,500	2,215,000	2,687,550	10/1/2028
Lena Point Building (Juneau)	251,875	1,955,000	2,302,700	10/1/2027
Arctic Research Center (IARC)	524,925	1,465,000	1,576,625	10/1/2023
Aurora Drive Receiving Warehouse	126,250	575,000	640,125	10/1/2024
Elvey Building Cooling System	66,780	63,000	64,260	10/1/2020
Lena Point Building (Juneau)	44,520	42,000	42,840	10/1/2020
Equipment Installment Contracts	55,561	8,127	8,173	7/15/2019 & 2020
Total UAF	\$ 22,229,511	\$ 254,348,645	\$ 403,023,736	



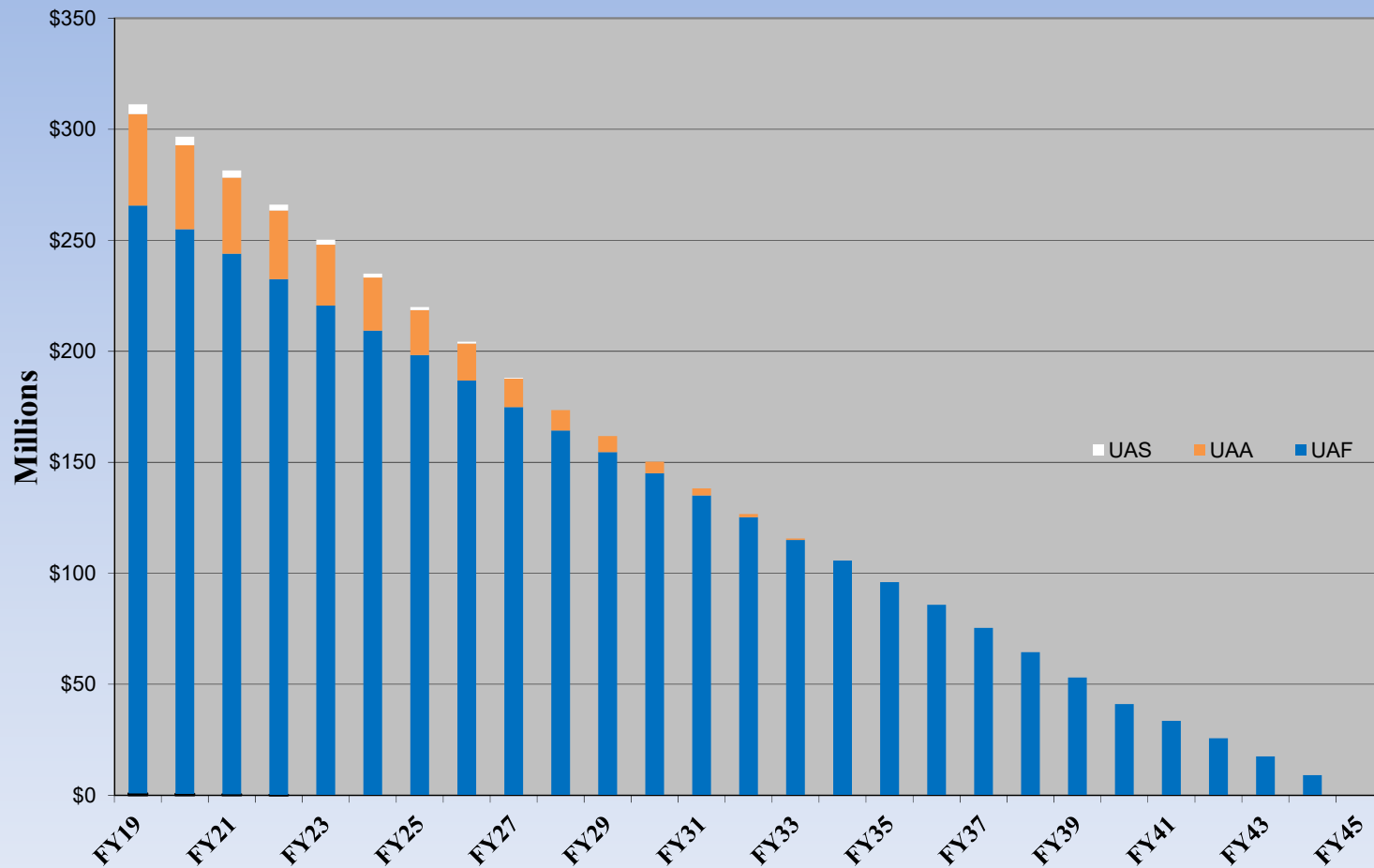
Debt by Major Administrative Unit

Debt Financed Project Description	FY20 Debt Service	Principal Outstanding as of 6/30/20	Remaining Debt Service: FY21 to Final Maturity	Maturity Date(s)
University of Alaska Anchorage (UAA)				
Student Housing & Townhouses	\$ 1,500,000	\$ 14,376,651	\$ 17,539,978	2/1/2032
Integrated Sciences Building Parking Garage & Loop Rd	772,825	8,185,000	10,690,225	10/1/2033
Community & Technical Center (aka University Center)*	877,425	6,060,000	7,029,975	10/1/2027
Deferred Maintenance - Various Facilities	858,650	5,790,000	6,845,025	10/1/2027
Deferred Maintenance - Various Facilities	342,650	1,815,000	2,111,975	10/1/2021 & 2026
Student Housing	190,600	790,000	867,650	10/1/2024
Land Acquisition & Improvements	51,474	395,000	463,465	10/1/2028
Software Maintenance Installment Contract	328,426	312,846	328,426	8/30/2020
Kenai Peninsula Kachemak Bay Campus Addition	74,400	75,000	76,500	10/1/2020
Total UAA	\$ 4,996,450	\$ 37,799,497	\$ 45,953,219	
University of Alaska Southeast (UAS)				
Readiness Center*	\$ 341,600	\$ 2,345,000	\$ 2,720,600	10/1/2027
John R. Pugh Hall (Food Service Facility)	175,400	1,045,000	1,223,900	10/1/2026
Residence Hall	128,725	240,000	252,250	10/1/2022
Auke Lake Entry & Improvement	94,100	185,000	192,500	10/1/2021
Total UAS	\$ 739,825	\$ 3,815,000	\$ 4,389,250	
Statewide				
University Lake Building (Anchorage)	\$ 167,025	\$ 385,000	\$ 408,500	10/1/2022
Deferred Maintenance - Butrovich Building	86,100	240,000	254,800	10/1/2022
Total Statewide	\$ 253,125	\$ 625,000	\$ 663,300	
Total University of Alaska	\$ 28,218,911	\$ 296,588,143	\$ 454,029,505	
* The annual debt service on these facilities is reimbursed via a separate appropriation.				





Total University of Alaska Debt Outstanding June 30, 2019



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Debt: Key Takeaways

- UA's debt service is a significant fixed cost: \$28m, or 5% of unrestricted revenues
- Fixed costs reduce management's capacity to make strategic reductions as revenues decline
- UA's has limited capacity for new debt
- Debt relief, in the form of principal payoff or debt service reimbursement, is a prudent financial move
- Debt relief would strengthen UA's financial position, and increase its capacity to respond to current and future revenue pressures

Thank You

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