

MINUTES
JOINT MEETING
SENATE FINANCE COMMITTEE
HOUSE FINANCE COMMITTEE
February 20, 2002
9:09 AM

TAPES

SFC-02 # 12, Side A
SFC 02 # 12, Side B

CALL TO ORDER

Co-Chair Dave Donley convened the meeting at approximately 9:09 AM.

PRESENT

Senator Dave Donley, Co-Chair
Senator Pete Kelly, Co-Chair
Senator Jerry Ward, Vice Chair
Senator Loren Leman
Senator Lyda Green
Senator Gary Wilken
Senator Lyman Hoffman
Senator Donald Olson

Representative Eldon Mulder, Co-Chair
Representative Bill Williams, Co-Chair
Representative Con Bunde, Vice-Chair
Representative John Harris
Representative Ken Lancaster
Representative John Davies
Representative Eric Croft
Representative Bill Hudson
Representative Carl Moses
Representative Richard Foster

Also Attending: REPRESENTATIVE HUGH FATE; PRESIDENT MARK HAMILTON, President University of Alaska; WENDY REDMAN, Vice President for University Relations, University of Alaska; ELSA FROEHLICH DEMEKSA, University of Alaska Board of Regents; MARLENE JOHNSON, University of Alaska Board of Regents, JOE THOMAS, University of Alaska Board of Regents

Attending via Teleconference:

There were no teleconference participants.

SUMMARY INFORMATION

SB 289-APPROP: OPERATING BUDGET/LOANS/FUNDS
SB 245-APPROP: OPERATING BUDGET/LOANS/FUNDS
SB 298-TOBACCO TAXATION; LICENSING
SB 246-APPROP: MENTAL HEALTH BUDGET
HB 335-APPROP: OPERATING BUDGET/LOANS/FUNDS
HB 336-APPROP: MENTAL HEALTH BUDGET
HB 337-REAPPROPRIATIONS & CAPITAL APPROPRIATIONS
HB 403-APPROP: OPERATING BUDGET/LOANS/FUNDS
HB 404-APPROP: MENTAL HEALTH BUDGET
HB 414-SUPPLEMENTAL APPROPRIATIONS: FAST TRACK
HB 415-SUPPLEMENTAL APPROPRIATIONS

This was a joint meeting of the Senate Finance Committee and the House Finance Committee. The Committees heard testimony on the State of the University of Alaska. The bills were held in Committee.

#SB 289
#SB 245
#SB 298
#SB 246
#HB 335
#HB 336
#HB 337
#HB 403
#HB 404
#HB 414
#HB 415

SENATE BILL NO. 289

"An Act making appropriations for the operating and loan program expenses of state government, for certain programs, and to capitalize funds; making appropriations under art. IX, sec. 17(c), Constitution of the State of Alaska, from the constitutional budget reserve fund; and providing for an effective date."

SENATE BILL NO. 245

"An Act making appropriations for the operating and loan program expenses of state government, for certain programs, and to capitalize funds; making appropriations under art. IX, sec. 17(c), Constitution of the State of Alaska, from the

constitutional budget reserve fund; and providing for an effective date."

SENATE BILL NO. 298

"An Act relating to certain licenses for the sale of tobacco products; relating to tobacco taxes and sales and cigarette tax stamps; relating to provisions making certain cigarettes contraband and subject to seizure and forfeiture; relating to certain crimes, penalties, and interest concerning tobacco taxes and sales; relating to notification regarding a cigarette manufacturer's noncompliance with the tobacco product Master Settlement Agreement or related statutory provisions and to confiscation of the affected cigarettes; and providing for an effective date."

SENATE BILL NO. 246

"An Act making appropriations for the operating and capital expenses of the state's integrated comprehensive mental health program; and providing for an effective date."

HOUSE BILL NO. 335

"An Act making appropriations for the operating and loan program expenses of state government, for certain programs, and to capitalize funds; making appropriations under art. IX, sec. 17(c), Constitution of the State of Alaska, from the constitutional budget reserve fund; and providing for an effective date."

HOUSE BILL NO. 336

"An Act making appropriations for the operating and capital expenses of the state's integrated comprehensive mental health program; and providing for an effective date."

HOUSE BILL NO. 337

"An Act making capital appropriations and reappropriations, and capitalizing funds; making appropriations under art. IX, sec. 17(c), Constitution of the State of Alaska, from the constitutional budget reserve fund; and providing for an effective date."

HOUSE BILL NO. 403

"An Act making appropriations for the operating and loan

program expenses of state government, for certain programs, and to capitalize funds; making appropriations under art. IX, sec. 17(c), Constitution of the State of Alaska, from the constitutional budget reserve fund; and providing for an effective date."

HOUSE BILL NO. 404

"An Act making appropriations for the operating and capital expenses of the state's integrated comprehensive mental health program; and providing for an effective date."

HOUSE BILL NO. 414

"An Act making supplemental and other appropriations; amending appropriations; and providing for an effective date."

HOUSE BILL NO. 415

"An Act making supplemental and other appropriations; amending appropriations; making appropriations to capitalize funds; and providing for an effective date."

This was the first hearing for these bills in the Senate and House Finance Committees.

MARK HAMILTON, President, University of Alaska, reminded the Committee that during his first presentation to the Committee in 1999, he expressed "how the level funding of the 90's had essentially broken the machine," and "enrollment and morale were down." He expressed now, however, with support from the legislature, the University is turning into a "success story." He stated that in FY 00, when the University received its first general fund increase in many years, the University began to make plans and the "tide was turned." He noted the University's reliance on general funds for a large portion of its overall budget has been decreasing as referenced in the University of Alaska handout titled "Actual General Fund Compared to Total Funds FY 86-FY 01" [copy on file]. He summarized that the general fund percent of total funding has declined from a high of 47 percent to the current 38 percent, and the percentage is projected to drop to 35 percent of the total funding under the proposed FY 03 budget.

President Hamilton stated the decrease in general fund percentage of total funds is indicative that "more students mean more tuition; more corporate donations; more federal funds; more foundation and grant funding."

President Hamilton stressed that what is harder to see from the handout information is the "enormous increase in spirit, enthusiasm, and hope" that has resulted from the support of the Governor and the Legislature." He continued, "our faculty, staff and students have been energized."

President Hamilton stated that Alaska "lost" 30,000 of its young people between 1990 and 2000, and this loss undermined the balance of ideas, energy, and life experiences "between the youth and the more experienced." He exemplified the determination of a young University of Alaska student, Jim Border, who in 1930 thought Alaska could be connected to the "Lower 48" by road. President Hamilton stated it took more than a decade but the road was built.

President Hamilton reported that the University has "made significant progress in keeping our young people in Alaska." He highlighted several programs that have attracted students such as the Young Scholars program, which has resulted in a 50 percent increase in Alaska high school graduates attending the University of Alaska. He added that the number of Alaskan high school students who graduated in the top ten percent of their class and who are attending the University of Alaska was increased 400 percent. He credited Legislative support for the turnaround in keeping Alaska's youth in the state. He expressed this "has sent a clear and resounding message. The students heard it, the faculty heard it, the parents' of students heard it, and Alaska's businesses heard it."

President Hamilton opined, "the turnaround is a direct reflection of your insistence that we support the only instrument of economic development diversification this state or any state has, and that's its education system." He stated that the University, along with the Legislature, is addressing "the call" from the citizens of the state for a long-range fiscal plan. He stressed the need for the state to "support a vibrant education system...pre-school through post-secondary."

President Hamilton stated the University should serve the needs of the State and toward that endeavor, the University has asked for support and direction from the Legislature, industries and state agencies. He continued that the business response has been "staggering." He stated businesses requested "courses, degrees, training, basic and applied research, community outreach...in other words, the services of a state higher education system." He contended, "an aging workforce, the high costs, and bad results, of bringing workers from out of state, the needs for constant training and re-training...these are real problems that are inhibiting

Alaska's ability to achieve and maintain a solid financial footing."

President Hamilton explained that for the past three years, the University has "asked for much less than the state demanded from us" as he declared the University is "not willing to ask for money we can't responsibly spend."

President Hamilton communicated to the Committee the details of programs the University has created as a response to the needs of the state such as: the two-year nursing program in Fairbanks and Kodiak; the radiology, dental assistance and other health programs offered at most campuses; Information Technology programs; and Early Childhood and teacher education programs as well as certificate and associate level industry and trade programs.

President Hamilton stressed, in addition to course offerings, new instructional programs providing counseling, job placement, and academic advising have "generated significant improvements in the day-to-day lives of our students."

He stressed to the Committee "accountability is foremost to the University," and affirmed the University's commitment to the initiative process. He stated the University holds itself accountable to the agencies and corporations that invest in the University, and that the University conducts a quarterly review on each initiative. He gave as an example a \$400,000 state appropriation that would be returned, as the program it was intended for was unsuccessful.

President Hamilton affirmed the University's commitment to quality, and informed the Committee that the University had recently completed national "institutional and program accreditation." He continued that the Nursing review "was so good they will require no more review for six years - an accomplishment granted to less than 20 percent of all nursing programs in the country."

President Hamilton shared the academic accomplishments of the University in debate and finance competitions, and highlighted the hosting of such conferences as the Breadloaf Writers Conference held each summer at the Juneau campus. He noted that University "engineering students routinely score at twice the national average on standardized licensure exams" and "nursing students are usually in the top two to three percentile nationally in first time passing for their licensure exams."

President Hamilton stated the FY 03 operating budget request has been described as a \$21.6 million increase; however, this figure

includes funding for the Alaska Science and Technology Foundation (ASTF) and postsecondary funding which were committed to the University as general funds. He commented he did not agree that their inclusion in the overall increase of funds "was fair," and he considers the increase of funding to be \$16.9 million in new money with \$3.8 million allotted to cover fixed costs in excess of normal inflation, and \$5.7 million to cover negotiated labor contracts which were already approved by the Legislature.

President Hamilton stressed that the University is generating more funds, and stated the balance of the new money is going to meet the expanding program activities to meet the needs of Alaska's business and industry.

President Hamilton detailed some of the items in the request: in technology "the need is to assure access to networks for classrooms, labs and offices on the main campuses;" in student services the request would support a variety of programs such as peer counseling, marketing and advising; expanded programs in finance and general business; and to address health, information technology, education, trades and technology; and project management courses in the engineering field under Workforce Development.

President Hamilton stressed the success of a "model program" for recruiting and retaining Alaska Native students in engineering at the University of Alaska Anchorage. He stated the program is primarily supported through corporate donations.

President Hamilton furthered that an increase in funding would allow for statewide delivery of additional nursing programs, and that the biomedical health research request for \$420,000 would enable the University to receive grant money of \$4.6 million.

President Hamilton detailed how the increase would positively affect the liberal arts program, teacher education programs, natural resource management programs, and service learning programs that incorporate community service into the curriculum.

President Hamilton noted the information on page 28 and page 29 of the University of Alaska Fiscal Year 2003 Operating & Capital Budget Requests booklet [copy on file] denotes that the University is asking for zero general fund money and permission to receive \$3 million in non-general funds for the "EPSCoR (SYS) program" as well as zero general funds and \$7 million in industry funds for the Center for Nanosensor Technology to promote manufacturing expertise in Alaska.

President Hamilton expressed that "research is an industry in the state of Alaska" and ranks number three in payroll and number six in employment in the state. He cited the number of people employed at the University with research grant funding, and stressed "how important it is to understand how much a University looks and acts and contributes like a major business," and "that many states are pouring money into their state university research components in order to built their state economy."

President Hamilton acknowledged the support that the Legislature has given the University; however, he stressed the need for continuing investment in the University system in spite of the fiscal "storm" that Alaska is facing.

Senator Lemman asked President Hamilton to explain the ramifications of and the benefits derived from research projects.

President Hamilton detailed several of the research projects currently underway at the University such as the microprocessing project called Nanotechnology. He stated it is hard to determine what all the spin-offs of these projects are; however, they bring new technologies into the state in addition to research monies. He remarked that the University is in discussion with other research entities such as the wireless industry, and stated this is "the only way we will ever spin-off and develop and diversify the economy of Alaska." He stated that four years ago there were zero technology research projects at the University and now there are three, and that number will be growing.

Senator Lemman asked whom the University has hired as Vice President for Research.

President Hamilton announced the University had hired the former director of Woods Hole, a renowned research entity, for the new position of Vice President for Research.

Senator Hoffman asked if rural campuses are attracting the same percentages of Alaska's high school graduates as the main campuses.

President Hamilton stated, "the rural campuses have significantly increased their student bodies and their retention;" however, the rural campuses have different percentages of the graduating students than the main campuses. He stated the focus at the rural campuses should be on the rate of retention, and that the expansion of course offerings at the rural campuses has helped increase enrollment numbers.

President Hamilton stressed how important the issue of continuing

education for rural Alaskans is to the University. He stated that in addition to the Alaska Scholars program which is awarded to the top ten percent graduates in every Alaska high school, the University has developed a program called the Emerging Scholars Program, which offers rural students at risk of failing school, an opportunity to continue their education. He expressed that three of the eight students initially in this program would earn an associates degree in May 2002. He stated it took them three years instead of the typical two years; however, this "means they have completely caught up and successfully accomplished the college curriculum," including the "catch-up" courses.

President Hamilton informed the Committee the University has approximately "\$8 million in federal grants specifically and directly associated for the recruitment and the retention of our Native students."

Senator Hoffman commented these "are not very high student numbers" and questioned the program's success rate. He asked about the University's commitment to developing infrastructure at the University's rural campuses.

President Hamilton stated there has been "significant improvement" at the rural campuses. He stated that when he joined the University, the total capital budget designated for rural Alaska campuses was \$70,000; now it is "several millions of dollars." He exemplified that Bristol Bay had been waiting for twelve years to have a campus built, and it is finally being built now.

Senator Hoffman commented that the University could not take "credit for the Bristol Bay campus as it was on the list and it was because of legislative action that made it a priority."

President Hamilton agreed that the Legislature has the final say in what projects are selected, and noted that the University's Board of Regents exerted considerable effort in support of that campus.

Representative Davies inquired as to the University's deferred maintenance status; specifically as to what might be "critical future needs."

President Hamilton referenced the list of Capital Appropriations the University has received since FY 90, beginning on page 161 of the handbook. He stated this list reflects, "what happens when money is allocated without any continuity and planning." He detailed that several years ago, the University received a large amount of "desperately needed" deferred maintenance money, but "had absolutely no staff left to plan and supervise these things." He

stressed that the University now has "the necessary staff." He contended that "it takes a long time to plan for any project" and he relayed, for instance, that when a dorm is remodeled, many facets of the job have to be planned including housing residents in other facilities, and "if you have money to fix three dorms, you can absolutely guarantee that its going to be three separate projects because you can't just kick everybody out all at once." He stated that building and remodeling projects take some time, are accounted for, and "are on the right track now as there are people in place to take care of the project."

President Hamilton stressed "it is clear that we need to concentrate on science and lab facilities as "there are just enormous opportunities out there to continue to both provide the instruction and provide the kinds of research that needs to be done in the state of Alaska by Alaskans." He spoke to the opportunity to compete for some "enormous pockets" of research money, and informed the Committee the first year he was employed at the University of Alaska, "the University was bringing in \$70,000 in National Institute of Health (NIH) research grant funding out of a total NIH budget of \$28.6 billion. He commented that even without a vice president of research position to further that cause, "this year, we will receive approximately \$7.5 million dollars." He stressed that research monies provide the University with a "powerful economic instrument," as well as being "very important instruments for the state's economy."

Representative Croft inquired as to the status of the University's community colleges.

President Hamilton responded there was a recent directive by the University's Board of Regents stating their commitment to revitalize the community colleges. He stated this effort is a result of the people of Alaska's needs. He informed the Committee "in 1950, 20 percent of the jobs in America required a four year degree. This is the year 2002 and only 23 percent of the jobs do." He stated this is the result of "the enormous increase in jobs that require post-secondary education or require refresher courses." He forecast that by the end of this decade "the University of Alaska will still be characterized by having most of its students as part-time" with there being "an enormous number of students associated with what we would refer to as the community college roll." He continued "the funds that were directed to work-force development" by the Legislature for the last several years, "have gone a long way toward revitalizing our capability to provide that workforce training and the former community college mission.

Representative Hudson, noting that approximately half of the

requested FY 03 budget increase would support salary maintenance, inquired if the University typically negotiates three-year contracts.

President Hamilton responded yes.

Representative Hudson asked if this is the third year of such a negotiation.

President Hamilton responded "basically, yes," however, a portion of it supports an increase for non-union or "non-represented staff."

Representative Hudson asked if the fixed cost increases are "absolute requirements."

President Hamilton stated that the budget includes "those extraordinary pieces of inflation that are associated with running a University" such as the double digit increases associated with library materials and Information Technology expenses. He reminded the Committee "three quarters of the normal inflation costs are covered by money generated from University receipts."

Representative Hudson asked what is included in the administrative support request.

President Hamilton responded this request would provide additional administrators in offices throughout the campuses. He explained that as the University has transitioned "from \$350 million of total expenditures to \$620 million this year," additional staff is needed to "run the business practices" and the overwhelming amount of new dollars and new programs into the system that have to be accounted for."

Representative Harris noted the University has received funding to address the shortages of teachers and nurses in the state and asked how the funding has addressed these needs.

President Hamilton replied this is a larger "problem" than the University could solve.

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President Hamilton stated that on the national level, "42 percent of individuals who graduate with a teaching degree never teach" and, "half of those who do quit within three years." He reported

that to address this situation, the University "has absolutely changed the teacher education program from the ground up in direct context with the principals and superintendents of the state of Alaska." He explained that in the traditional program, "the individuals did not go into the classroom until the last semester of their senior year. Now they go in as first semester freshman." He contended that people need to "see what it is we are training to be, and understand that from the beginning."

President Hamilton stated the University has begun two-year nursing programs in both Kodiak and Fairbanks "with one beginning this year in Juneau." He continued that Licensed Practitioner Nursing (LPN) programs would begin at three different sites, on a "rotational basis." President Hamilton disclosed that increases in money would not be the "complete solution" for the Allied Health program as the "needs are so enormous that at some stage of the game, you quite literally will run out of facilities in which to execute the program."

President Hamilton speculated that the nursing and education workforces would "continue to be supplemented through the end of this decade, as the University can not possibly begin to provide all of it." He stressed, however, that the University would try to "provide all we can." He summarized that the demands continue to grow in these fields and the process needs to be "staged" and be "built in increments as has been requested every year."

Senator Olson inquired as to what has been done to "address the nursing shortage occurring, especially in rural hospitals."

President Hamilton stated the plans are listed in the handout material. He continued that the University has sought advice and has begun partnerships in rural areas. He noted there are much higher demands for the LPN programs in the rural areas, and stated, "these courses are administered from Anchorage but delivered and greatly supported by distant delivery." He reiterated that these courses would be on a rotational basis and, for example, would "be offered in Bethel in even years and offered in Dillingham in odd years."

Senator Olson asked the history of the number of nursing graduates.

President Hamilton responded that the numbers reflect "clearly more" students and more programs; however, the University would research this information and provide it to the Committee.

Senator Wilken asked the status on enrollment numbers in order to get a "sense of success."

President Hamilton stated that enrollment dropped precipitously in the 1990's as the result of the flat funding and loss of programs. He continued that 2001 was the first time since the early 90's that enrollment went up, and it "jumped again" this year. He stated the University "attracted a very significant increase" in first time college students...right out of high school. He opined this "reflects that the word is out that the University is a great quality program where you have good experience." He also stated that returning students appreciate that classes are small, that students can talk to their professors, and that the professor knows their name.

President Hamilton stated "where we haven't seen the increases has been in the other core courses that are more directly associated with the old kind of community college mission such as Associate Degrees." He advised, "this corner needs to be turned" as it "represents the greatest number of potential students" for us." He stated increasing the students in this category "will be a major focus."

President Hamilton asserted that retention is another key element to the success of the University and that "our retention is terrible."

Co-Chair Williams asked President Hamilton for suggestions for a long-term fiscal plan that would enable the legislature to be able to fund the University's needs.

President Hamilton responded, "I would really encourage you to invest," as he does not "believe there is any possibility that we can save ourselves into prosperity." He said the state should approach the fiscal problem the same way a typical citizen would: instead of buying a new car, keep the one you have in good repair; instead of buying a new home, paint the one you have; and when it is time for the child to go to college, take out a loan and invest in his or her education. He stated "we as individuals invest in education," and he "would recommend the same course of action" to the legislature.

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ADJOURNMENT

Co-Chair Dave Donley adjourned the meeting at 10:06 AM