MINUTES
JOINT MEETING
SENATE FINANCE COMMITTEE
HOUSE FINANCE COMMITTEE
February 18, 2004
9:07 AM

TAPES

SFC-04 # 13, Side A
SFC 04 # 13, Side B

CALL TO ORDER

Co-Chair Gary Wilken convened the meeting at approximately 9:07 AM.

PRESENT

Senator Lyda Green, Co-Chair
Senator Gary Wilken, Co-Chair
Senator Con Bunde, Vice Chair
Senator Lyman Hoffman
Senator Donny Olson
Representative Bill Williams
Representative Mike Hawker
Representative Bud Fate
Representative Mike Chenault
Representative Eric Croft
Representative Carl Moses
Representative Richard Foster

Also Attending: SENATOR TOM WAGNER; SENATOR FRENCH HOLLIS; SENATOR RALPH SEEKINS; REPRESENTATIVE JOHN COGHILL; REPRESENTATIVE DAVID GUTTENBERG; MARK HAMILTON, President, University of Alaska;

Attending via Teleconference: There were no teleconference participants.

SUMMARY INFORMATION

State of the University
Presentation by President Mark Hamilton

MARK HAMILTON, President, University of Alaska, introduced the Board of Regents members and campus chancellors present at the meeting.

President Hamilton gave the following speech.

Fifty years ago Alaska's Constitution was written on the University of Alaska-Fairbanks campus. The future was the topic and the guiding light. Politics were set aside for 75 days and self was subordinate to service. All eyes were fixed on the horizon, where promises were kept and hope captures the heart, as no certainty never has. At the close of that convention, the delegates shared a resolution to Alaska. It said, "You're Alaska's children. We bequeath to you a state that will be glorious in its achievement; a homeland filled with opportunities for living, a land where you can worship and pray, a country where ambitions will be bright and real, an Alaska that will grow as you grow."

You can't be at the University of Alaska without focusing on the future. This fall a remarkable and historical event took place. This fall for the first time in the history of the State or Territory of Alaska, more than half of out college-bound children stayed home. We got 55 percent of all students in Alaska going to college last year. But it's better than that. Five years ago, we only had 40 percent of our kids who even aspired to go to college. Today that's 50 percent. Five years ago we got 44 percent of that 40, now we've got 55 percent of that 50. That adds up to almost four thousand students.

Believe it or not, that particular statistic is met in some places with cynicism. "Well it's no wonder, you're paying them to go there." I assume people are referring to the Alaska Scholars Program, and let's just think for a minute: if all of the people who receive that scholarship came to the University, simply because we gave them a scholarship, they'd account for less than one-quarter of our increase. But frankly, in their defense, I think it's an insult. These are youngsters who typically have several scholarships and the overwhelming majority came to the University of Alaska by choice, as did the other 3,000 students.

The cynics still aren't done: "That's great. Now you've got more people, train 'em, they can't find a job." I'm a supplier in this business. And when you look at it from the supply side, I promise you there are more good jobs in Alaska begging to be filled by Alaskans than I can possibly deliver: a hundred percent of my engineers, a hundred percent of my project managers, a hundred percent of allied health, a hundred percent of my nurses, and every single teacher who wants a job. Maybe not one who wants to teach third grade at that school in Anchorage, but a hundred percent of them who want a job get one. We're short on the supply side.

These students, the most in our history, taking work courses and earning more degrees than ever before in our history: together they comprise a dividend to the State of Alaska. A dividend. It's a dividend that frees our employers from the unseen but powerfully felt import tax that's imposed every single time they try to recruit somebody, transport them from the Lower 48.

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But it's better than just protecting the people from the import tax. We're importing them for you. We have tripled the number of students who began their education in the Lower 48, who have now come home to go to school.

Many of the stories indicate that Alaskan students are tired of going to a college where their freshman biology class has more people in it than their hometown. It actually happens - 350, 400 people in a "G.E.R." class is not remarkable. It's been a consistent story for many years now.

These numbers, these students have come for investments made by this group five years ago, four years ago, and three years ago. That 55 percent belongs to those courageous decisions to invest in the University. We said that we could stop the brain drain. We said that employers would contribute as soon as we have enough money to teach the courses they're interested in. We said that research would respond to your priming the pump. I asked you for dollars to support "Epscore" about four years ago. You gave me a million dollars. Epscore today is operating on a budget of more than ten million dollars a year for five years on a federal grant. That about follows the flow. You give in a dollar and out comes five or six on the other end in research.

We told you that earned income would rise. And the numbers here aren't as important as the magnitude. This is what happened with your investment over five years. You wish it would happen to your 401k. Tuition revenue up 84 percent. Federal receipts up 137 percent. Indirect cost recovery up 199 percent. University receipts are up 300 percent. Land grant trust fund up 188 percent. Where else? Where else do you have that kind of return? Tangible results, bottom line: State used to pay 60 cents on every dollar of postsecondary education.

State now pays 40 cents on every dollar.

We said that citizens would respond as soon as we build a University they could be proud of. Private donations are up 168 percent. Six years ago we had no endowed chairs at the University of Alaska. By the end of this year, we'll have four.

I told you that I would be accountable. In addition to the scrutiny endured by any public institution, I spend a total of eight days, two full days at statewide and each of the "m.a.u.s" twice a year, to sit down and go over, with their management and finance executives. A series of very detailed questions that take hundreds of man hours to produce, because I want to know where the dollars' going, where they're being redistributed and what are we getting for it.

I've been asked by this committee in the past to highlight the college of rural Alaska campuses. In short, they have followed the trend of the University as a whole. They've led the way in enrollment growth with the Rural College increasing 116 percent in the last four years: Kuskokwim campus by 88 percent in the last four years.

Student credit hours is even more impressive: five-year gains as high as 93 percent at Kuskokwim and 144 percent at Rural College. Now because of Title 3 grants, expenditures at these campuses - it isn't necessarily State dollars going in - but the amount that they are able to expend using federal money, has far outpaced the University as a whole. In the last four years, Bristol Bay has increased expenditures by 88 percent, Rural College by 85 percent, Kuskokwim by 40 percent. Bottom line of all that is that general fund support per credit hour has been reduced by almost one-quarter, almost 25 percent over the last five years. They are becoming more efficient as we become more efficient at the University.

Terribly important part of our asset, because it's a little known fact: almost half of our graduates, almost half of our graduates, had spent at least one semester at a community campus. For Alaska Natives, that percentage is 70 percent.

Retention rates of all of our students have increased, but specific efforts to address our Alaska Native students are finally paying off. We measure this at the "continued onto the second year" measure point. Five years ago, Native retention was only about two-thirds that of their white counterparts. Today, nearly 60 percent of our Natives stayed that second year and 70 percent for out white students. Both have increased and the gap is closing. Alaska Natives have overlapped both retention rates for Afro Americans and for Hispanics. Of course for me that means I now have two more areas to be concerned about.

I got a letter from a young girl that I will only identify as Allison [spelling not verified], in case she didn't want you to know where she was from. Here's what it says [as read by President Hamilton].

> My name is Allison. I'm an Alaskan Native, the second youngest of seven children from a small village. My mother was widowed in 1991 after my father passed away from a stroke. [The] passing [of] my father encouraged me to further my education in the health field, and I've dreamed of becoming a nurse since I was a small girl. I graduated valedictorian, went to a program called "RAHI" Rural Alaska Honors Institute at Fairbanks, one month after graduation. In '99 I enrolled in classes at Bethel at Kuskokwim campus, received my AA degree in May 2002. I got my personal care attendant certificate in December 2002 and I also completed basic life support certification from the American Heart Association in November of 2002.
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> My career goal is to become a Registered Nurse and secure a position at the YK Delta Regional Hospital in Bethel. I'm convinced that is important to the local population to have dedicated health care workers who are lifelong YK Delta residents and Native Alaskans.
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> I may not solve the nursing shortage, yet I am positive I'll make a difference in many Native people's lives because I'll be able to provide culturally appropriate care and support for the patients and their families. Nurses are the ones who are at the bedside providing invaluable expertise, as well as essential caring support and education to those in need, their needs and other caregivers. Nurses do mean the difference between life and death, comfort and pain, knowledge and fear, freedom and dependence. That will be a powerful and gratifying feeling. I dream of experiencing that sensation every day.

First thought, do you think she's having trouble passing the exit exam?

You know what, two years ago, I would have written her back and said, "Allison, don't you worry. Your dreams will come true." Today, I'm not so sure.

We may be accountable. Well your accountant would tell you the trends that I've just proudly related to you cannot continue. The last two years, the University's had to eat $7.5 million, while educating 2,000 additional students. Now we're not formula funded, don't wanna be. It's too complicated to compare PhD with a GED, other states have tried it. This is not a pitch for formula funding. But the basic principle is right: you have more students - 2,000 of them you need more money. This is not a business. This is not a private college. It's a state university.

You need more money especially to train the skills that employers want. The skills that we have aimed for over these last five years. It costs more money to train an engineer than an English major. It costs more money to train a nurse than an anthropologist, more money for a welder rather than a historian. It takes more money to teach diesel repair. We don't have to guess where this will go without adequate funding. We were there six years ago.

But it's worse than that. Businesses will not contribute if the State doesn't. Citizens will not contribute if the State doesn't. Students won't stay if they think you changed your mind about having a great University, about having an economy, about a future where ambitions will be bright and real and Alaska that will grow as you grow.

And this time they'll feel tricked. You said yes at nine dollar a barrel oil. Don't say no at 33. We don't have to guess where this will end up. We know too well. Fourteen out of the last 19 years, the University has been funded at below inflation as measured by higher education price index (HEPI). Inflation counts. The University today has two-thirds the purchasing power that they had in 1986. Every time you fund below inflation, there has to be redistribution and we are sadly, unbelievably good at it.

You know that somebody suggests, "You know, you ought to try outsourcing." Well, I never get angry at somebody who's trying to help. But there was a little voice in the back of my head that says, "Gosh, I wish we'd have thought of that." Residential dining, vending, laundry, pest control, generator testing, has - 173, 173 separate outsourcing contracts from the University. Others might use that as a reference book. So another friend will say, "Wow, I guess you're going to have to do some consolidation." Listen, we have the mother of all consolidation. We sucked up all the community colleges. Saved us $6 million and just on my watch we got us about $12 million worth of grief, but we did it.

We also consolidated reasonable and sensible things, like land management, risk management, h.r. [human resources], labor, payroll. And sometimes it's not consolidation, it's exactly opposite: it's distribution that helps you get by. We now handle almost $30 million of procurement on what we call a "pro-card", which in essence says, "let's use the less formal, although audited, methodology of a credit card, as opposed to a formal system to handle some of the more simple pieces of our procurement business."

We've also done some things that nobody has suggested and that I believe to be essentially unique. Now I'm going to compare here because we need comparisons sometimes to understand with the State - there's nothing [illegible word: fajorative] about the State - and the University is a huge advantage that a bunch of smart people who tend to stay there for a very, very long time. They don't reorganize every time somebody has a new idea. So we have an advantage.

I want you to think about this. We have offered now, for more than a decade, the optional retirement plan. This is a defined contribution plan and as opposed to a defined benefit. We've greatly mitigated our long-term risks because there's no medical in the future. It's essentially a 401K. I've 750 people on this plan. All of my executives and about half of my faculty and it gains every day, more and more and more people. It's sort of the moral equivalent of Tier IV, which is just now being mentioned around this particular building. We've been doing it for more than a decade. Nobody told us to do it.

We have frozen what the State calls the SBS - the Supplemental Benefits System. We froze this almost two decades ago at 3,300. As you know, the State continues to go up with COLA and now has a theoretical limit of about 5,300.

We put together a program we call UA Health Plan 2000. All of my executives, all my nonrepresentative staff and this particular program to date calls for a defined employer contribution of about $500 a month per person. This compares with the State's current one, which is over $700. Now, truth in advertising: over the next several years, we are moving this up more nearly toward that statewide number because, frankly we compete for some of the same people and they'd notice.

While this has gone on, we've never forgotten to look for our future. Our own Jim Lynch [spelling not verified], working with this Legislature in the year 2000, helped craft a bill that has allowed a - just an exceptional college savings plan. This is a Section 529 plan, Internal Revenue code. With that enabling legislation, we got together with T. Rowe Price and crafted a plan that went on the market in April of 2001. To date the plan has attracted more than a billion dollars of investments all for tuition. Sixty million of those dollars are Alaskan citizens' assets. Morning Star last week, or within the last two weeks, just rated that particular fund as one of the top five in the country. By the way, T. Rowe Price has funded $3 million worth of national advertising for the product. The product is called The Alaska College Savings Program.

We all have to be outsourced and after you've consolidated, and after you've centralized, you cut. Over the years, we have done things that simply hurt: cancel the 800 number that allows distance education students to access University education with a local phone call; canceled music and sports as UAS; shut the Adult Learning Center in Anchorage. And we still only teach about two thirds of the courses that are offered by North Dakota, South Dakota, Wyoming. We're not chasing down Stanford here, we're trying to get to other states with less than a million population and offer the same kind of things to their citizen.

I know the fiscal circumstances of this University. And I'm telling you, we need these dollars. We are no longer tightening belts; we're tightening a noose. We need the minimum amount asked for. It is higher education price index, collective bargaining contracts, plus some nursing expansion, practical nurse education and allied health - fields into which private industry has already put millions of dollars.

As well, the University needs to be included in legislation to relieve the PERS/TRS [Public Employees Retirement System and Teachers Retirement System] bill that is killing K-12 University and some municipalities.

I am very proud to be in the last frontier. Tell you something I learned only recently that I think is remarkable: the word "frontier" in every other Indo-European language means "barrier" or "obstacle". Only in English does the concept of frontier evoke limitless opportunities, countless restarts. I used to tell people "that's all you need to know about America."

Allison understands frontiers. She understands that they're the fields that dream. Well we argue about means versus end. Educating Allison so she can get a job in her community - that's the answer. You have the means. You know the end you want. Six years ago, the courage of this committee changed the State. The decision is no harder today. Fund your University.

Senator Bunde appreciated Allison's letter and President Hamilton's ascertain that she likely passed the high school exit examination without difficulty. Senator Bunde asked the status of the need for remedial instruction at the University.

President Hamilton was unsure of the fiscal impact, He reported that approximately 40 percent of all students entering college require remedial education; however, he noted that students in Alaska require up to one year of full time classes, while most students only need to take one or two courses. He emphasized the need to provide remedial education, noting the need first arose during the civil rights movement. He characterized the practice as inclusion. He added that the University of Alaska should retain its open enrollment policy to allow attendance of any Alaskans who chose to become college students.

Co-Chair Wilken asked about the Board of Regents actions regarding tuition increases in the past and future.

President Hamilton reminded that several years ago, with the increased funding provided by the Legislature, the Board determined to announce tuition raises in advance of implementation to allow students to make financial plans. He expressed that the Regents have accepted the need for tuition increases and three years ago planned for a ten percent increase each year for four years. At that time he noted, the University of Alaska tuition rates were approximately 30 percent less than that charged by other schools. He stated that although the tuition increases have been implemented for three years, other schools have increased their tuition rates as well and subsequently the University of Alaska tuition remains 30 percent below average.

President Hamilton continued that as a result of the tuition increases implemented at the University, as well as increased enrollment, the University generates $74 million annually. He cautioned that this increase does not cover the cost of education, reminding that the University is not a business and is not selfsustained by tuition. He remarked that operations have become more efficient and that a smaller percentage of the total University budget is derived from State funding. He characterized the willingness of students to pay the increased tuition costs to attend the University of Alaska as an endorsement of the quality of education received. He stated that if not satisfied, students would "vote with their feet" and chose to not attend the University. He cited the decreased enrollment that occurred during the 1990s when funding was inadequate, stressing that receipt of a permanent fund dividend is not sufficient incentive for students to retain Alaskan residency.

SENATOR RALPH SEEKINS informed that all four of his children, their spouses and his nieces and nephews attended the University of Alaska. He remarked that his family was staying in Alaska because they are members of the community, received their education in the State, and because their spouses are Alaskans.

President Hamilton commented on the economic advantages of Alaskan students remaining in the State after receiving their education. He exampled the field of radiation technologies; informing that the cost of employing a radiation technologist in Bethel costs $11,200 per month if that employee is not a local resident and $4,400 per month to employ a Bethel resident. He attributed the difference to recruiting, travel, housing, per diem and bonus expenses. He stressed that it is "good for business" for Alaskans to remain in the State. He suggested the cost of compensating Alaskan employers to be on par with other business would be considerable higher than the amount needed to fund the University.

President Hamilton continued speaking to the benefits of providing education for students in the location they reside. He remarked that nursing students from Fairbanks sent to Anchorage for their education could not be expected to return to Fairbanks upon graduation. He explained this is due to the "comfort" in remaining in the hospital workplaces where they trained and have become accustomed to. He stated that 13 of the 15 graduates of the Fairbanks program of the previous class remained in Fairbanks.

President Hamilton reported that 81 percent of the University of Alaska graduates remain in the State, regardless of whether they were raised here. He stated this commitment "changes the relationship" between the University, students and businesses, and is "clearly the right way to go."

Senator Hoffman told of the momentum of the Yuut Elitnaurviat Learning Center project and asked the witness' impression of the project.

President Hamilton remarked this project is an "absolutely wonderful opportunity to do something" that has been attempted elsewhere. He indicated that attempts to provide vocational education to students at the Kotzebue Technical Center have been less successful, despite dedicated staff. He noted the advantage of residential "opportunities" in Bethel. He stated that the University has provided more of its discretionary funding to this project during the previous five years than to any other. He qualified that the amount of discretionary funds is "pitifully small."

Representative Fate asked whether the University was still challenged with recruitment and retention of qualified teachers.

President Hamilton answered yes. He qualified that the variances in comparable salaries was "asymmetrical" in that professors in some fields earned higher wages at the University of Alaska than their colleges in other schools, while professors in other fields earned less than their counterparts. He emphasized that some University of Alaska staff are substantially underpaid. He also noted the variances exist between different campuses in the University of Alaska system. He assured the problem is not "overwhelming" but must be addressed. He stated that recruitment efforts improved when the Legislature began increasing the amount of funding for the University. He also remarked on the commitment of professors to their jobs. He shared that during the 1990s when salaries were not increased, faculty chose to replace vacant positions rather than distributing the funding from those positions to remaining employees.

Co-Chair Wilken commented on the Legislature's concerns about K-12 education and the need for "prime teachers". He noted the University currently "supplies" one of every three new teachers hired in Alaska and that efforts were underway to increase the number of qualified teachers graduated from the University of Alaska. He compared the number of teachers graduating from the University to the numbers graduated from other states of similar populations. He listed: 262 graduates of elementary education, secondary education, education leadership and principals from the University of Wyoming in 2003; 298 graduates of elementary education, secondary education, principals, superintendents and special education majors from the University of Idaho; 432 elementary teachers, secondary teachers, principals, principals and superintendents from the University of Montana; compared to 192 graduates from the University of Alaska. He was unsure whether the needs were same as the other states, but surmised that Alaska should closer match that of the state of Montana. He asked what actions the University of Alaska is taking to increase the number of teachers.

Co-Chair Wilken also noted the review undertaken by the University in October 2003 relating to the University teachers education programs and "interface with the K-12 community", as well as efforts with the National Council on Accreditation and Teacher Education.

President Hamilton told of a outreach program conducted at the Tanana Valley Campus (TVC) that gathers Fairbanks area high school students and provides courses intended to "relieve the fear of test taking" to increase the chances that all students would pass the high school graduation examination.

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President Hamilton stated that the University is addressing meeting the needs of the federal No Child Left Behind Act. He informed that University campuses have begun math and reading endorsement programs.

President Hamilton reported that enrollment in the School of Education has increased 18 percent to approximately 220 students in each graduating class. He was unsure whether the number would increase significantly higher than this. He expressed skepticism with data from "outside", thus questioning the figures cited by Co-Chair Wilken. Despite this, President Hamilton pointed out the uneven demand for teachers in Alaska. He stated that three University graduates were hired as teachers last year in Fairbanks and one in Anchorage. However, he stressed that many graduates are unwilling to locate in communities needing teachers.

President Hamilton continued that the University would graduate its first class in its special education endorsement program. He stated that the School of Education would continue its efforts in preparation for rural teachers and indigenous teachers, which he pointed out, are separate programs.

President Hamilton told of the requirement that early childhood education teachers and teacher aids must complete 48 credit hours by 2006. He expressed that it is a difficult outreach program to operate because participants are employed and the program must be delivered to their communities.

President Hamilton expressed "comfort" with the "direction", but not the "status" of the University's Schools of Education. He characterized the programs as "picked on" and "jerked around", in the constant revision of curriculum and qualifications. He remarked, "We absolutely want to know from people 'how are our products doing?'" He relayed that the reports about teachers educated at the University is "overwhelmingly, though not unanimously positive."

Senator Olson stressed the increasing need for health care professionals as the mean age of Alaskans increases. He asked the impact that inadequate funding to the University would have on the Washington, Wyoming, Alaska, Montana, Idaho Medical Education Program [WWAMI] and nursing education programs.

President Hamilton assured he would not threaten the elimination of any programs if the Legislature failed to appropriate the requested amount of funds to the University. He agreed these programs are important and that efforts would be made to continue them. However, he pointed out that the increased costs of PERS and TERS could not be absorbed and that programs subsequently would be negatively impacted. He stated that the Board of Regents would make actual determinations as to how reductions would be implemented.

President Hamilton did caution that over the long term, if adequate funding were not provided the size of the University would "shrink". He stressed that the workforce development programs would be reduced first, primarily because fewer students are enrolled in those programs. He compared the cost of providing a welding course for eight students to the cost of an English class for 30 students, and advised that the welding course would likely be eliminated. He explained the need for core programs, such as English and Humanities would because they are required for every degree program.

Senator Bunde asked about the land grants and the ability of the University to generate revenue from these sources.

President Hamilton recalled the efforts undertaken in the past four years in developing the land held by the University. He reported 78 million feet of lumber has been marketed, 8,000 acres sold and development has begun on 18 different subdivisions. He calculated the revenue generated from these activities at $42 million. While he praised the land grant system, he cautioned that the remaining quarter of a million acres of land held by the University is "picked over" and of a lesser value. He stated that most recent estimates anticipate that if the land were "properly developed", in 20 years the endowment would generate $6 million annually. He appreciated attempts to address the University's budget with land grants, but expressed concern that assumptions would be made that this process could be substituted for other funding.

Senator Seekins shared that several years ago, when his daughter was a senior in the School of Education program at University of Alaska, Fairbanks, she participated in a program that sent students to remote communities for student teaching. He understood this was an expensive program to operate and asked whether it continues and would continue.

President Hamilton agreed the program is expensive, explaining the need for supervision. He informed of plans to regionalize the program to allow supervisors to visit students stationed in rural communities on a "circuit rider" system, rather than traveling to and from Fairbanks for every visit. He stated this would be undertaken utilizing federal funding.

Senator Seekins commented that this experience was an "eye opener" in exposing his daughter to life in rural communities. He recognized a "tremendous value" in showing young people these opportunities for teaching, as well as the realization to students that life is not as "bad" as they may have imagined.

Senator Bunde noted that some federal financial aide programs provide incentives for recipients to enter fields where trained workers were needed, such as special education. He suggested a similar approach could be considered in encouraging participants of the Alaskan Scholars Program to pursue careers in rural teaching or nursing.

President Hamilton assured he would give the suggestion consideration.

Representative Moses asserted that President Hamilton has given the Finance Committees many reasons why it should take action in assisting the University.

Co-Chair Wilken recognized the contributions of Marshall Lind, Chancellor of the University of Alaska, Fairbanks, and former Chancellor of the University of Alaska, Southeast, and educator for many years, who would be retiring this year.

Co-Chair Wilken commented that he "suffered through" two presentations to the Senate Finance Committee by the former University president. Co-Chair Wilken appreciated President Hamilton's leadership in "pulling the team together" and improving the University system.

ADJOURNMENT

Co-Chair Gary Wilken adjourned the meeting at 10:11 AM