

SENATE FINANCE COMMITTEE  
October 14, 2009  
9:15 a.m.

9:15:05 AM

CALL TO ORDER

Co-Chair Stedman called the Senate Finance Committee meeting to order at 9:15 a.m.

MEMBERS PRESENT

Senator Lyman Hoffman, Co-Chair  
Senator Bert Stedman, Co-Chair  
Senator Charlie Huggins, Vice-Chair  
Senator Johnny Ellis  
Senator Dennis Egan  
Senator Donny Olson  
Senator Joe Thomas

MEMBERS ABSENT

None

ALSO PRESENT

Senator Gary Stevens; Senator Joe Paksvan; Representative David Guttenberg; Representative Anna Fairclough; Representative Mike Kelly; Representative Jay Ramras; Cynthia Henry, Chair, Board of Regents, University of Alaska; Tim Brady, Board of Regents, University of Alaska, Anchorage; Fuller Cowell, Board of Regents, University of Alaska, Anchorage; Wendy Redman, Vice President, University Relations, University of Alaska; Myron Dosch, Controller, University of Alaska; Joe Trubacz, Vice President, Finance, University of Alaska; Brian Rogers, Chancellor, University of Alaska, Fairbanks; Michelle Rizk, Associate Vice President, Budget, University of Alaska; Fran Ulmer, Chancellor, University of Alaska, Anchorage; John Pugh, Chancellor, University of Alaska, Southeast; Kit Duke, Chief Facilities Officer, University of Alaska, Anchorage; Mary Rutherford, President, University Of Alaska Foundation; Bernice Joseph, Vice President, Rural Communities and Native Education, University of Alaska; Pat Pitney, University of Alaska, Fairbanks; Ashton Compton, Student Regent, University of Alaska, Fairbanks

PRESENT VIA TELECONFERENCE

None

SUMMARY

## **^UNIVERSITY OF ALASKA BUDGET OVERVIEW**

[9:18:52 AM](#)

CYNTHIA HENRY, CHAIR, BOARD OF REGENTS, UNIVERSITY OF ALASKA, read from a document regarding the Board of Regents' fiduciary responsibilities:

The University of Alaska is identified in the Alaska Constitution under Article 7 which says, 'The university is hereby established as the state university and shall be governed by a board of regents. The board shall, in accordance with the law, formulate policy and appoint the president of the university.' The state constitution established the University of Alaska as the single post-secondary system governed by a board of regents appointed by the governor and confirmed by the legislature. This organization was specifically designed to establish public accountability and avoid potential political intervention with the academic management of the higher education institution. The board appointments were even established as staggered eight-year terms to avoid a situation where a governor could ever appoint the entire board.

The single system was designed to avoid the competition for legislative funding that has plagued other states with separately governed systems and institutions. The board of regents submits a unified request for legislative consideration based on a comprehensive budget development and review process that is guided by priorities established by the regents.

The board of regents is responsible for establishing separate campus missions that respond to the needs of local and regional constituents. Policies have been developed that promote program alignment and collaboration between campuses and avoid unnecessary program duplication. There are never sufficient resources to provide all the instruction, research, and outreach Alaskans want. As the legislature knows well, priorities are very difficult from region to region. Tension between campuses and between regents is an inevitable part of the university culture, but the board of regents manages competing interests into a statewide mission and strategic plan that is broadly perceived as fair and balanced.

There is a significant degree of consistency in missions across the three units: in undergraduate, and in selected university programs, and in the community college mission. This mission includes providing

vocational and occupational instruction, the first two years of undergraduate education, preparatory, and developmental instruction, and other credit and non-credit courses, and programs designed to be responsive to the needs of local communities, and to adult learners in particular.

Differentiation between the three urban campuses is important and is realized through the designation of statewide leadership and centers of excellence in specific focus areas. The University of Alaska, Anchorage, (UAA) is a comprehensive university offering exceptional undergraduate and masters' programs in the arts and sciences, as well as meeting Alaska's most pressing professional needs for nurses, social workers, engineers, and business leaders. The University of Alaska, Southeast (UAS) provides a liberal arts curriculum for undergraduates and selected masters' degrees, including teacher education. The University of Alaska, Fairbanks, (UAF) is the state's primary academic research institution. It provides undergraduate and graduate education, including the doctoral degree with a focus on science, technology, math, and engineering.

The university is subject to a myriad of federal and state laws and regulations in managing its business and academic enterprise. At the state level the university is covered by the Executive Budget Act, the provisions of the State Procurement Code, and the Public Employees Relations Act (PERA) for all collective bargaining. At the federal level the university complies with Standard Government Accounting Principles, including a multitude of complicated IRS regulations that apply to universities and their foundations. These requirements and reporting responsibilities increase each year with new wrinkles, depending on the politics. For example, the collapse of several large corporations in the 1990's resulted in the development of stricter auditing standards. Since 9/11 the institutional requirements governing accepting foreign students have increased dramatically.

The regents are a policy board. Our policies and regulations guide the academic and management decisions of the system, but the day to day operation is managed by the president and his staff, including the chancellors.

[9:21:19 AM](#)

Ms. Henry explained that she has been a regent for about 6.5 years and considers it a privilege to serve on the Board of Regents. She opined that Alaska has a very high quality

university, and her opinion of the university increased as she became more involved with it.

Ms. Henry described the eleven regents as serving in a voluntary capacity. The compensation is the gratification received from participating in the education of students who attend the university. She described education as a life-changing experience that provides job skills and professional training and upgrades a person's confidence. It benefits the students, their families, and the larger community.

Ms. Henry listed the occupations of the board members, most of whom are University of Alaska graduates. She noted that board members maximize their expertise by assignment to standing committees. The committees with the biggest workloads are the Academic and Student Affairs Committee, which addresses new programs, degrees, and policies, the Facility and Land Management Committee, which deals with monitoring facilities and projects, and the Finance Committee, which deals with budget issues.

Ms. Henry shared that the regents were responsible for all aspects of the university system from the oversight perspective. The president's job is to implement the priorities through the board and delegate responsibilities. She emphasized the seriousness of board responsibilities.

[9:26:01 AM](#)

Co-Chair Hoffman referred to a problem when the president was opposed to the board's meeting with the co-chair of the House Finance Committee. Ms. Henry was not familiar with that incident and noted that the Board of Regents has a very good working relationship with the university president. Co-Chair Hoffman asked if it was acceptable for board members to meet with individual legislators without the president in attendance. Ms. Henry said it was.

Co-Chair Stedman asked if the president has the ability to override a request by one of the finance committees to meet with the board. Ms. Henry did not think the president had that ability. She pointed out that the president works for the board. She added that typically the board would want the president at the meeting because he has a very active role in the budget.

[9:27:41 AM](#)

TIM BRADY, BOARD OF REGENTS, UNIVERSITY OF ALASKA, ANCHORAGE, spoke of the meeting being referred to when three regents met with Representative Hawker and Representative Fairclough. He noted that the meeting was positive and led to better communication with the board. He pointed out that

the board is reconsidering how it interacts with the legislature and has set up a specific legislative committee with the goal of being more accessible.

Co-Chair Stedman asked if it was true that the president threatened to resign if the board met with the legislature without him. Mr. Brady replied that it was news to him. He emphasized that the board was free to meet with the legislature any time. He defined the structure of the new committee.

[9:31:06 AM](#)

Ms. Henry spoke of Senator Thomas's past membership on the board. She related that the regents spend considerable time clarifying the board's priorities. It is the president's job to implement those priorities. She denied that the board is a "rubber stamp" for the president. There is little controversy when the president acts at the board's recommendations. The board is concerned with maximizing every public dollar.

Ms. Henry reported on the board's many challenges such as duplication of programs. There is a strong advocacy for maintaining rural campuses, in spite of higher costs. She spoke highly of the rural campuses' abilities to leverage resources and form partnerships. She gave an example in Nome.

[9:33:07 AM](#)

Co-Chair Hoffman described how rural campuses are left out of the president's message. Ms. Henry regretted that. She emphasized that rural campuses are under the umbrella of each Major Administrative Unit (MAU). Co-Chair Hoffman thought there was room for improvement. Ms. Henry reported that the board is in tune to needs; however, there is never enough funding.

Mr. Brady commented that he has found President Hamilton supportive of rural campuses. Mr. Brady said, "We cannot call ourselves the University of Alaska if we don't offer post-secondary educational opportunities to our fourth, fifth, sixth, and seventh largest cities in our state." He maintained that the board has been very supportive of rural campuses and proud of their staff. He pointed out a basic premise of the board: the board is not made up of regional members and must maintain a statewide perspective.

[9:36:29 AM](#)

FULLER COWELL, BOARD OF REGENTS, UNIVERSITY OF ALASKA, ANCHORAGE, voiced concern about providing resources to rural campuses in poor economic times. Having a unified budget

makes that possible. He maintained that the biggest threat to rural campuses was the bifurcation of the budget by the legislature in economically troubled times. Co-Chair Hoffman reported that he was one that pushed for bifurcation of the budget in order to determine which campuses were short-funded. He maintained that the rural campuses were not receiving adequate funding. Co-Chair Stedman suggested pursuing this topic at a later time.

[9:39:03 AM](#)

Senator Olson asked about the working relationship with UAF and the Barrow campus. Ms. Henry related that the board hears very little about that topic because the Barrow campus is funded by the municipality. Senator Olson asked if any money from the university helped to fund the campus. Ms. Henry was not aware of any.

Ms. Henry hoped the chancellors would address that topic at a later time. The MAU's have considerable autonomy on their own budgets. She noted that the university welcomes audits and inquiries by the legislature. She mentioned SB 241 which dealt with teacher education and required a regent's report to the joint education committees. She said her goal is to have all needs filled within the state. She mentioned a recent audit on distance education. Legislative audits have helped the regents. The regents consider the legislature as a partner.

[9:42:56 AM](#)

Co-Chair Stedman said that the Senate Finance Committee would work with the Legislative Budget and Audit Committee to ensure that the board receives copies of the audits in a timely manner. Ms. Henry spoke of the variety of needs the legislature can provide, such as receipt authority, funding, or influence during outreach to private donors.

[9:45:01 AM](#)

Ms. Henry spoke of the accreditation process. Each of the MAU's is separately accredited, as is the Prince William Sound Community College. Many university programs also have a separate accreditation. Teams of experts thoroughly review finances and academic programs. She believed that regents and legislators can take comfort in knowing that programs are being thoroughly evaluated.

Ms. Henry addressed the issue of the retirement of President Hamilton. The university is a big institution with a lot of diverse stakeholders; therefore the process of hiring a new president is very important, as is the participation of all stakeholders. The board has done a RFP, has evaluated companies that do searches, and has hired Academic Search's

Elaine Hairston, a senior consultant, who has visited the campuses and is writing a profile for the new president. Next, she will advertise in higher education publications and state newspapers. A goal of the regents is to have people with Alaskan experience apply. Ms. Henry urged the Committee to also submit names for consideration. The goal is to have finalists by January.

[9:51:02 AM](#)

Ms. Henry offered to discuss the budget process at a later date. Co-Chair Hoffman wished to hear the presentation of the capital budget as it related to rural campuses. Co-Chair Stedman noted that the work session may include discussion of prickly issues, but the goal is to have a smoother working relationship with the university.

AT EASE: [9:53:15 AM](#)

RECONVENE: [10:02:13 AM](#)

Co-Chair Stedman turned to the topic of fiscal oversight.

Ms. Henry introduced Ms. Redman who would address the subject of external and internal university audits.

[10:03:45 AM](#)

WENDY REDMAN, VICE PRESIDENT, UNIVERSITY RELATIONS, UNIVERSITY OF ALASKA, encouraged the legislators to make requests and the chancellors to contribute to the discussion.

[10:05:16 AM](#)

MYRON DOSCH, CONTROLLER, UNIVERSITY OF ALASKA, provided background on the university's financial structure. He said his presentation of financial statements and the application of Generally Accepted Accounting Principles (GAAP) is meant to provide the Committee with another fiscal viewpoint.

Mr. Dosch reported that the university is audited extensively. It has an annual external audit of its books, which resulted in an "unqualified or a clean opinion" in 2008. He referred to handout 2, the university's financial statement, which contains the auditor's report. He referred to pages 17 and 21, which show the balance sheet and income statements of the university and which are presented according to GAAP as one whole university system.

Mr. Dosch related the financial concepts embodied in the financial statements. According to GAAP, public colleges and universities are required to report their financial statements in a business-type format. This format is

required when a governmental entity has charges to external users, such as tuition. The GAAP Board is the standard-setting body. They want university financial statements to look more like private sector statements, to be more comparable to other universities, and to be more useful to external users. He provided history of the overhaul of state and university financial reporting.

[10:09:41 AM](#)

Mr. Dosch explained that full accrual accounting is required, which requires the recording of depreciation expense. University statements are included in the state's comprehensive annual financial report. The university is a component unit of the State of Alaska. Other state entities that fall into the same category are: Alaska Aerospace Development Corporation, Alaska Energy Authority, Alaska Housing Finance Corporation, Alaska Industrial Development Export Authority, Alaska Mental Health Trust Authority, Municipal Bond Bank, Natural Gas Development Authority, Alaska Railroad Corporation, Alaska Student Loan Corporation, and Seafood Marketing Institute.

[10:11:33 AM](#)

Mr. Dosch discussed the university's federal financial assistance audits. He referred to handout 3, "University of Alaska Audit in Accordance with OMB A-133" (copy on file). Federal financial assistance amounts to about \$200 million annually for research grants, student financial aid, and non-research assistance. The audit is conducted by KPMG, LLP of Anchorage. It checks for regulation compliance.

Mr. Dosch described other audits such as cost accounting practices.

Mr. Dosch observed that the university is reviewed by other federal entities. There is also a statewide internal audit department, which reports to the Board of Regents Audit Committee.

[10:14:51 AM](#)

Mr. Dosch reviewed revenue sources. Co-Chair Stedman referred to chart handout 5, "Operating Budget Revenue Trend by Fund Source" (copy on file). Mr. Dosch observed that the University receives general fund and non-general fund revenue. General fund are revenues received through the appropriation process and are known and fixed amounts. Non-general fund are all other funds such as tuition, indirect cost recovery, or federal research grants, and are varied.

Mr. Dosch discussed the concept of receipt authority, the budget amount the legislative approves from non-general fund

sources. He termed it the "not to exceed" amount. He gave tuition as an example.

[10:18:22 AM](#)

Mr. Dosch reviewed the various revenue sources. University receipts include tuition and fee revenue, investment income, indirect cost recovery, auxiliary receipts, and university receipts. He detailed each type of receipt.

Co-Chair Hoffman asked what percentage rates were used. Mr. Dosch replied that nine different rates were used at the federal level. The most common rate is the UAF research rate, which is 45.1 percent. There is also a memorandum with the state that has reduced indirect rates of 12 percent for non-research grant awards and 25 percent for research grant awards.

Co-Chair Stedman requested a status report on the endowment and its potential revenue generation.

[10:22:20 AM](#)

Mr. Dosch listed the following receipts: auxiliary, program, federal, state interagency, UA Intra-Agency, and capital improvement project (CIP).

Ms. Redman introduced Joe Trubacz and Brian Rodgers to clarify the banner system.

[10:24:21 AM](#)

JOE TRUBACZ, VICE PRESIDENT, FINANCE, UNIVERSITY OF ALASKA, requested that Chancellor Rogers provide the history of the banner system.

BRIAN ROGERS, CHANCELLOR, UNIVERSITY OF ALASKA, FAIRBANKS, defined the banner system as the university's integrated financial, human resources, and student records system. The system conversion to banner began in the late 1980's for several reasons. One reason was due to the GASB 34 change in financial standards, and another was because the old financial accounting system did not produce real time reports - they were monthly. It was very difficult to answer specific legislative queries. The advantage of the banner system is the integration of accounting system with the student record system and the human resources system. It allows the university to provide the required reports to the state and to the federal government to meet audit requirements. It also provides internal management information in real time.

Mr. Trubacz related that there are approximately 1600 college systems that use the banner system today. Over 80

percent of the research universities use it. Another advantage of the system is the reporting aspect. Four different pieces of software are used to produce reports. He offered to provide examples.

Mr. Trubacz described the banner system as a live system, which can be accessed at any time for information.

[10:29:10 AM](#)

Mr. Trubacz explained the Q Menu report, a web-based product that allows an individual to check on a specific project. The Q Ad Hoc allows the viewer to look at various portions to arrive at a query. He gave examples.

Co-Chair Hoffman asked who has access to the Q Menu. Mr. Trubacz replied that anyone who has a password has access. Co-Chair Hoffman asked if the finance staff could access it. Mr. Trubacz said they could.

[10:31:00 AM](#)

Mr. Trubacz described the second system, the Vista Plus, which allows for printing reports at a specific time. The third system, the Data Browser, allows a person to view various tables at once to generate a report.

Co-Chair Hoffman asked if it was set up to monitor whether BRU's are being expended as approved. Mr. Dosch said that was possible.

Chancellor Rogers added that part of the role of the financial system is to ensure that money cannot be spent outside of the way the legislature has appropriated it.

Co-Chair Stedman wondered how that might be breached or modified. Chancellor Rogers did not know. Mr. Dosch described safeguards in the system.

Co-Chair Stedman asked if Mr. Dosch, as the Controller, had the ability to modify the system. Mr. Dosch reported that he has no access to the system. Co-Chair Stedman asked who did have access. Ms. Redman thought the legislature could change the appropriation. Co-Chair Stedman noted that the question relates to the accounting system. Ms. Redman explained that the accounting system is set up based on the appropriation and the university cannot breach the system.

Senator Thomas asked if it was possible to add to or delete the expenditure. He wondered if a record is kept of who has access when the money is moved in any fashion. Mr. Trubacz explained that when there is an attempt at an over-expenditure of an account, the banner system does not allow it. With the proper authorization, a budget authority can

increase the amount. The exception is the personnel line, which is reviewed on a regular basis.

[10:37:32 AM](#)

Mr. Trubacz offered to provide training in the Banner System. He emphasized that management decisions are data-driven.

Co-Chair Stedman requested that Mr. Trubacz differentiate between the state system and the Banner System. Mr. Trubacz reiterated that the Banner System integrates the three programs into one comprehensive system, unlike the state system.

[10:39:33 AM](#)

Mr. Dosch addressed debt capacity, authority, and oversight from a credit rating agency point of view. He reported that Alaska Statute 14.40.040 provides the university with the authority to borrow money and issue debt in its own name. As of June 30, 2009, the university had approximately \$128 million in debt outstanding, which consisted primarily of revenue bonds. The regents' policy says the maximum annual debt service may not exceed 5 percent of operating revenues. On June 30, 2009, the university had a maximum debt service of 1.7 percent of the operating revenues. Mr. Dosch termed that amount conservative.

Mr. Dosch explained that the university has established a bond indenture which allows access to the capital market through the issuance of general revenue bonds. The university pledges the following sources of revenue for those bonds: tuition and fees, indirect cost recovery, auxiliary receipts, and other university receipts. Currently, the university is planning on a bond refunding given current low interest rates. The university has issued fourteen general revenue bonds since 1990.

Mr. Dosch related that the university is considered an AA-rated entity; AA3 from Moody's, AA- from Standard & Poor's. The university was recently upgraded two years ago by Moody's for the first time. The rating agencies look at the university on an annual basis. Their interest is from a business perspective and focuses on student demand, competitiveness, and market share, reserve, endowment performance, research competitiveness, management of the institution, state support, gifts and contributions, and financial ratios.

Mr. Dosch referred to HB 184 introduced last year which would have allowed for a debt/cap authorization. Currently, statutes provide that any time the university issues debt where the debt service would exceed \$1 million, it is

required to get special approval from the legislature. This provision has been in place since 1990. The proposed legislation would increase the cap to \$2.5 million. It would essentially adjust for inflation at that level and reduce some of the administrative burden for the state and the university.

Co-Chair Stedman asked for an explanation about why the university received credit rating upgrades and how it might receive future upgrades.

Mr. Dosch responded that the rating agencies were looking mainly at state support relative to other colleges and universities, and found consistent state support in Alaska. They view the state as being invested in higher education. The agencies also look at the management of the institution. The university has grown over the recent years in enrollment and in research.

Mr. Dosch suggested that a significant amount of debt could cause a decreased rating.

[10:46:24 AM](#)

Mr. Dosch stated that it is not realistic to assume that the university, given its size and relative comparisons to other institutions in the AA category, would be upgraded.

Chancellor Rogers added that only none-state appropriations can be pledged in terms of debt service. In order to pay debt service those appropriations need to be generated.

Senator Thomas asked for the criteria regarding the comparison of institutions.

Mr. Dosch answered that it is mostly size.

Co-Chair Stedman stated that the next item after the break would be the university budget development.

[10:47:20 AM](#) AT EASE

[11:03:40 AM](#) RECONVENED

Co-Chair Stedman shared the plan for the afternoon session.

Co-Chair Hoffman recalled that it was 20 years ago when he was chair of the House Finance Committee that he made changes to address major maintenance issues at the university. It was in 1990 as a member of the Senate Finance Committee that he requested the chairs to visit the Fairbanks campus. This is only the third time that a finance committee has come to the university to discuss

issues. He suggested meeting more frequently in order to keep the lines of communication open.

Co-Chair Stedman stated that the next items are UA budget development, regents' budget directions, and campus process.

Ms. Henry stated that university's budget process begins and ends with the regents. It begins early in the year when the regents set priorities, which are often based on the strategic plan. The goals are ongoing, but are adjusted based on needs. For example, the regents considered Alaska's work force needs and have dramatically expanded the shorter term certificate programs, where, in a year or two, a person can become skilled in a particular area.

Ms. Henry described the rigorous process which takes place at the MAU's where the wish lists are evaluated. The regents are not involved in that process. Then, the president and his or her staff review the budget before it returns to the regents. Adjustments are made and then the regents' budget is presented to the legislature based on priorities after a thorough evaluation.

[11:07:38 AM](#)

Co-Chair Stedman wanted to discuss the budget from the perspective of the regents' "Red Book budget" versus the legislature's "Governor's budget".

MICHELLE RIZK, ASSOCIATE VICE PRESIDENT, BUDGET, UNIVERSITY OF ALASKA, presented a brief overview of the university's budget process, which is a year-round cycle with three active years at any given time. Currently, it encompasses FY 09 - for accountability and review, FY 10 - for operation, and FY 11 - the planning requests for strategic and budget development. The Board of Regent's Strategic Plan (handout 1) is what guides the overall budget development process.

Ms. Rizk explained that the Board of Regents begins with the strategic plan and then the budget request guidelines (handouts 13 and 14) are approved at the April board meeting. Next, the budget request review occurs in September. Another opportunity to review the budget occurs in October when the budget is approved. At the June meeting the board approves the distribution of the funds that are received from the legislature.

Ms. Rizk reviewed the budget process for the FY 11 budget request that the Senate Finance Committee will be presented in January of 2010. The process begins at the department level the previous January when priorities are discussed. There is also a cross-MAU meeting with representatives from

all areas. She mentioned the additional meetings addressing priorities and the expansion of guidelines.

[11:11:33 AM](#)

Ms. Rizk discussed the formation of statewide planning groups who present their priorities to the MAU for incorporation. The overarching goal of the Board of Regents' guidelines is to align the university's budget requests with existing resources to maximize the strategic goals while maintaining administrative and program efficiencies. There is a program request level range of three to four percent program growth included for FY 11. The overarching goal of the capital budget guidelines is to ensure the necessary facilities, equipment, and infrastructure are in place for continued growth, refinement and improvement of the university. Similar to previous years, the highest priority is to maintain existing facilities.

Ms. Rizk noted that main campus needs and community campus needs are kept separate in the budget to eliminate competition.

Ms. Rizk reported on a July meeting with the Office of Budget and Management and with Legislative Finance to discuss the direction the university is going and to receive feedback on state priorities. In August all MAU's met together in Fairbanks for a budget request meeting, followed by a board meeting where highlights were discussed.

[11:14:46 AM](#)

Ms. Rizk related that at a September 24 meeting, the board had its first budget review followed by an October 30 meeting when the budget was approved. Ms. Rizk explained that the chancellors were going through a parallel process in budget development.

Senator Ellis asked whether the regents hear directly from the chancellors or if the administration reports the chancellors' wishes. Ms. Rizk answered that the chancellors do not meet with the regents; the president provides feedback to the regents. Senator Ellis summarized that the president and the administration hear from the chancellors and then decide what to pass on to the regents. He suggested that some information is received, some is not received, and some may be packaged.

Ms. Rizk said that was correct. She compared it to the budget requests submitted by the MAU's to the statewide office where some priorities and requests are omitted. Senator Ellis explained that he was trying to determine how

much filter and unfiltered information makes it to the regents for their budget priorities to be set.

[11:17:14 AM](#)

Ms. Rizk clarified that during the regents' meeting there is communication as to what is not recommended to be included in the budget. Senator Ellis asked what determines what the president and the administration passes on to the regents.

Senator Ellis restated the question to ask what factors determine what the president and administration use to prioritize information. Ms. Rizk stated that operating budget request guidelines derived from the strategic plan are the guiding principles. For the capital budget, deferred maintenance is the highest priority.

Mr. Brady stated that the university system is blessed with three outstanding chancellors who are advocates of their MAU's and who are not afraid to share opinions with the board. The board is aware of the chancellor's priorities in operations and in capital improvements.

[11:20:15 AM](#)

FRAN ULMER, CHANCELLOR, UNIVERSITY OF ALASKA, ANCHORAGE, stated that in order to explain the budget process from a MAU perspective, a one page diagram has been provided. She wanted all of the members to have a copy of the complex document entitled, "UAA Planning, Budgeting, and Reporting - October 2009" (copy on file). She related that all campus needs are weighed and the chancellors listen to the community, to advisors, and pay attention to the market, as well as student enrollment patterns. In addition to the focusing on the university's strategic plan, the chancellors take into consideration UAA's strategic plan, which is called UAA 2017. At the same time, requests from the deans and directors and program managers are being reviewed, while keeping in mind the performance measuring system. Every fall a report to the statewide office is required. It summarizes how goals are being achieved.

Chancellor Ulmer stressed that the budget calculation is complex. At UAA there is a Planning and Budget Advisory Committee (PBAC) which determines budget priorities. From all of the community campuses and programs there was a \$20 million request, which was eventually reduced to \$7 million. After looking at all of the various indicators, the challenge is to be responsive to the communities served. The process results in a request that is submitted to "Statewide", both for fixed costs and for program increments. Statewide must combine what is heard from all campuses and make recommendations to the president, who then

reports to the regents. She admitted that disappointment is inevitable.

Co-Chair Hoffman asked if President Hamilton was aware of the diagram and adheres to it.

[11:25:23 AM](#)

Chancellor Ulmer stated that he is not aware of the diagram, but he is aware of the general process used at UAA. She noted that each of the MAU's use a slightly different approach to get to the UA Statewide step.

Co-Chair Hoffman summarized that communication with the president about the chart does not exist. He wondered if the Board of Regents was aware of the diagram.

Chancellor Ulmer responded that the Board of Regents is aware of UAA's process in general terms. She thought that the regents did not need to get into the details about each of chancellor's budget processes. She did not know how it worked before her tenure.

Co-Chair Hoffman emphasized that the university is a statewide system. He suggested that all corners of the state need to be listened to. He requested a revisit of the diagram later.

[11:26:53 AM](#)

Chancellor Rogers stated that the budget process at UAF is analogous to that of UAA's process in terms of having a committee led by the provost who works through the requests. The cabinet then works together to craft a request that goes forward to the president. It is a balancing act with competing interests and multiple sources of direction. He stated that that the budget process changes over time and priorities shift. He provided an example of how UAF successfully advocated for its own interests regarding needs at rural campuses. A balance needs to be met between meeting the board's priorities and following the president's guidelines. It must also be politically realistic.

[11:29:48 AM](#)

JOHN PUGH, CHANCELLOR, UNIVERSITY OF ALASKA, SOUTHEAST, stated that UAS's budget process is probably the best it has ever been. It is similar to that of UAF's process. The provost council, which is led by the academic side, starts the budget process and comes up with priorities. The administration is also looking at its needs, as well as at facility needs. The ideas are then vetted through to the top leadership and moved forward.

Chancellor Pugh noted that several years ago a step was added whereby planning groups for special programs became involved with the budget process. The nursing and engineering programs are examples. Not all programs are covered by planning groups. This year a faculty position for the Alaska Native Language Restoration did not fit under the planning groups. It is a give and take between the planning group's priorities and campus priorities. Final decisions are then made by the president's cabinet.

Chancellor Pugh thought that the current process is better than in years past, but there is room for improvement. Core services should also be looked at through planning groups.

[11:34:04 AM](#) AT EASE

[11:34:16 AM](#) RECONVENED

Co-Chair Stedman mentioned the diagram previously presented by Chancellor Ulmer. He opined that during the legislative budget process there is disregard for the governor's budget request and the focus is on the university's Redbook. This leads to complications in the relationship between the university and the legislature and within the budget process when determining exact amounts. He expressed curiosity as to the direction the Board of Regents has given to its employees.

Ms. Henry admitted that the issue has not been brought to her attention. Her understanding was that in the past the university's budget was presented by the governor as written in the Redbook. She thought the controversy recently occurred under the Palin administration. She stated that the university uses the Redbook as its working document, but she had not made the connection about how it was communicated to the legislators. She stated that it was important for the legislature to know what the university's original request was.

[11:38:37 AM](#)

Mr. Cowell stated that he had discussed this change in procedure with the governor who stated that she did not have a problem with the mode of communication the university was proposing. He was hopeful to return to the old method with the new governor.

Co-Chair Hoffman stated that he did not have a problem with the university advocating for something different than the governor's budget. He stated that the legislature is often accused of short funding the university's budget because it is being compared to what the Board of Regents is requesting. He wanted a level playing field in order to

compare the university's request to the governor's request. He believed in dealing with all departments equally.

[11:41:52 AM](#)

Mr. Brady wanted to improve the lines of communication with the Finance Committee. He stressed that "the buck stops" with the Board of Regents. Student advocacy groups are a part of the request process and are encouraged, but they do not always mirror the requests of the Board of Regents. He realized that mixed messages are given.

Co-Chair Stedman summarized what he thought Mr. Brady's position was. The UA statewide action is followed by the Board of Regents' requests, and the governor becomes irrelevant and should accept the regent's budget. He wondered if that was correct.

Mr. Brady answered that before the Redbook goes to the governor there is a great deal of communication between the governor's office and university personnel in the hopes that both budgets would be aligned.

Ms. Redman announced that there are two formal meetings with the governor's office and OMB prior to finalizing the budget.

Co-Chair Stedman stated that they are discussions and not developing of expenditure lines. Ms. Redman commented that the governor's office and OMB are not shy about laying out numbers. They share expectations about the amounts to be funded in the operating and capital budgets.

Co-Chair Hoffman stressed that the starting point needs to be rectified. When the legislature approves last year's budget, and compares it to the governor's budget, there is a question about the starting point and modifications the committees make.

[11:46:09 AM](#)

Ms. Redman agreed to continue working with Legislative Finance to make it easier for the Committee to see the differences in funding sources.

Co-Chair Stedman described the process of analyzing the budget and stated grave concerns about arbitrary numbers claiming to be budgetary cuts. He believed it put elected officials in an awkward position with their constituency. He took issue with President Hamilton's comments after the budget was done. He was concerned about the regents' budget being presented to the legislature without the governor having an opportunity to make changes.

[11:51:43 AM](#)

Co-Chair Stedman cautioned that all entities must be treated equally and the university should be considered another department. He stressed that all departments have always had to defend their budget requests. He proposed to modify or do away with the Redbook.

Mr. Cowell spoke from his perspective and not the board's. He contended that the Board of Regents and the University are unique in that they are mentioned in Alaska's constitution and have a board that is appointed by the governor and certified by the legislature. He maintained that the legislature should not consider the university's budget the same way they consider a department's budget.

[11:56:32 AM](#)

Chancellor Rogers observed that the Redbook process has existed for at least thirty years and was, in part, a response to an issue raised by the legislature. In the past, the legislature wanted to know what the university has asked for that the governor has not funded. The Redbook also serves as a cap on university requests. He understood Co-Chair Stedman's point on the difference between the university's budget and the governor's budget.

Co-Chair Hoffman did not have a problem with the university advocating for their budget. He took issue with being accused of not fully funding the budget. He maintained that "fully funding" means fully funding the governor's request, not the Redbook.

Ms. Rizk noted that an appendix included in the Redbook traces the board's prior year distribution decisions and compares the board's, the governor's, and House and Senate Finance Committees' requests. The board's budget ends up being the starting point and the Conference Committee, the ending point. Co-Chair Hoffman reiterated his reservations about that process.

Co-Chair Stedman stated his experience in many meetings regarding the university budget where the comment "but it's not the Redbook" was heard.

Co-Chair Hoffman emphasized that the governor's budget request is the document that the legislature works with.

[11:59:39 AM](#) AT EASE

[1:35:58 PM](#) RECONVENED

Co-Chair Stedman turned to the subject of fixed costs and hoped to come to an agreement on the definition. He requested comments.

Ms. Henry appreciated Co-Chair Stedman's and Co-Chair Hoffman's candor during the discussion, which she believed was beneficial.

Ms. Rizk stated that the state defines fixed costs differently than the university, which calls them adjusted base requirements. Costs related to compensation requests are based on negotiated contracts for union employees and a step staff compensation recommendation based on comparable wages, cost of living, and environmental issues. The MAU's budget requests contain adjusted base fixed costs. System wide requests for building facility needs are also a part of adjusted base requirements.

[1:39:29 PM](#)

Co-Chair Stedman requested Ms. Rizk's perception on the upcoming budget process. Ms. Rizk requested clarification of the question.

Co-Chair Stedman asked if there would be agreement between Legislative Finance and the university about budget numbers. Ms. Rizk answered that there is need for additional discussions because no agreement has been determined.

Co-Chair Stedman asked for details on areas needing additional discussion. Ms. Rizk thought there were no areas of agreement yet, but that would happen before the budget is presented to the legislature in January.

Co-Chair Stedman summarized the discussion. Ms. Rizk agreed there would be clarification.

Co-Chair Stedman stated that the fixed cost issue will require work in order to make the budget process as smooth as possible.

[1:42:24 PM](#)

Co-Chair Stedman remarked that Ms. Henry could choose how to deal with the subject of the determination of the regents' operating and capital priorities. Ms. Henry wished to discuss expectations related to the capital budget. She said today's discussion is tentative because the board has not yet finalized the budget. She noted that Mr. Brady is the chair of the facilities committee and will discuss the capital budget.

Mr. Brady personally questioned the current "laundry list" process of presenting the capital budget, when it is obvious

that not everything will be funded. There has been considerable discussion on modifying that presentation. He informed the Committee that deferred maintenance would continue to be a board priority. The new budget will probably contain requests for "one project to build and one project to plan." There will also be a request for a feasibility study for community campuses, which will include community input.

Co-Chair Stedman recalled that deferred maintenance totaled about \$50 million per year. There was disagreement as to how that number was determined. He gave an example of comparing deferred maintenance needs of a new building with those of an old building. There was also discussion of the absorption rate. He questioned how much of the \$50 million the university can absorb each year. He spoke of the last governor and some of her decisions regarding the capital budget. He reminded the Committee of all of the competing demands. All communities on the list must prioritize their requests. He spoke of the expense of some communities' number one priorities, such as the \$400 million bridge project in Ketchikan. He thought some goals were more obtainable than others. He understood limiting the budget request to one project, but pointed out that expense is still an issue. He suggested that the university consider less expensive projects as well.

[1:49:02 PM](#)

Mr. Brady appreciated that there are competing demands as it is a reality faced within the university as well as in the state. He emphasized that the list has been pared down. He wished that he could control the cost of projects. He appreciated the comments on deferred maintenance; however, he believed that \$50 million was a realistic number. He defended the request and spoke of maintenance needs on the Fairbanks campus where, over the last ten years, an average of \$16 million was spent on deferred maintenance. He stressed that new facilities must be developed, especially research facilities.

[1:51:55 PM](#)

Co-Chair Hoffman contended that the Board of Regents should consider the state's entire budget when they develop their own budget. He spoke of the operating budget's dependence on the price of oil. He stated that a large capital budget means taking a substantial amount from the reserves. He expected to live within the state's means. The amount of funding is finite and the legislature must be prudent and practical.

Mr. Brady viewed the university as an investment, not expenditure, in the state and high on the state's priority list.

Co-Chair Stedman commented that after the governor submits the budget it is not reasonable to expect an elected official to add expensive projects to the budget because it takes broad support to move such legislation off the table. It puts elected officials in an awkward position.

[1:55:22 PM](#)

Mr. Cowell sympathized with the legislature's having to prioritize projects. He acknowledged that his only concern was with the Board of Regents' budget. He stated a concern, as a fiscal conservative, that because of the legislative process, the university winds up with sporadic funding which is sometimes difficult to absorb in a short time. The fluctuation creates difficult incremental costs. He requested that the legislature attempt to stabilize the flow of project funds. He emphasized that the \$50 million capital request is based on engineering studies and generally accepted practices across the United States based on facility size. The deferred maintenance projects have not been addressed for years. He also suggested that the legislature seriously view the board's priorities and possibly fund them over a longer period.

Co-Chair Stedman stated that the Committee's challenge is being able to predict the revenue stream. For example, last year when oil prices decreased, the legislature responded faster than the governor's office did and made a collective decision not to add projects to the capital budget. Additionally, a lot of time was spent on the pipeline project. He expressed concern about lag time related to construction projects.

[1:59:41 PM](#)

Chancellor Ulmer asked Co-Chair Stedman to describe the current process of developing the capital budget, which she thought might be different than when she served in the legislature. She explained that the board is also trying to serve the whole state while balancing different regional needs. She asked for a breakdown on how the capital budget is constructed.

[2:02:05 PM](#)

Senator Ellis asked why requesting only one capital project would be a good idea. He thought asking for only one project made no sense. He supported funding the top capital priorities and deferred maintenance requests at several campuses.

Co-Chair Hoffman brought up the ten-year-old Kasayulie Case which states that the state must spend more money building rural schools. No governor has requested a rural school to be constructed, which poses a problem for the legislature.

[2:04:12 PM](#)

Co-Chair Stedman gave an overview of the creation of the capital budget. Upon receipt of the governor's budget, the Senate Finance Committee looks at the broad numbers and revenue projections. Capital budget projects are examined for equal distribution around the state and regional balance, and then fund sources are considered: federal monies, general fund, and other state funds. He related that he individually meets with each senator regarding their issues and gathers information. He stated that regional balance is the goal in order to ensure fairness.

[2:09:20 PM](#)

Co-Chair Stedman noted conversations with the administration regarding the capital budget. The revenue stream dictates much of the expenditures. He listed projects he expected to come forward: Dalton Mine, port development, railroad expansion, gas line project, university projects, Seward Highway.

Co-Chair Hoffman added, "Energy projects."

Co-Chair Stedman admitted that the revenue stream dictates the number of projects. He stated that local governments' opinions are also key to the decision-making process.

[2:12:48 PM](#)

Mr. Brady reported that the university's list will be drawn down dramatically, but will be significant in size. Co-Chair Stedman suggested working hard with the administration.

Ms. Henry appreciated the explanation regarding the budget and the legislature's responsibility to their constituents. She stated that the Board of Regents does not represent the region in which they live, but the entire state. She appreciated the board's statewide perspective. She stressed the difference between her role and that of an elected official.

Ms. Henry mentioned the lone, large capital request which would be in the budget again this year, the Life Science Building project, which has been requested for six years and has not been funded, regardless of attempts to lessen the cost. She expected the board to approve the shortened list

because of this number one priority. She explained the rationale for the request.

[2:17:07 PM](#)

Co-Chair Stedman clarified that elected officials represent an area because they are most familiar with their own regional issues.

Senator Thomas noted that if stabilization could occur it would have in 2008. He made suggestions to the board on how to find success with their funding requests. He thought difficulty might ensue during local meetings. He agreed that if the money came in a steady flow, it would be advantageous. He commented about the capital budget and the fact that some cities are not in line for projects which causes problems for the legislature.

[2:21:19 PM](#)

Co-Chair Stedman used the Alaska Crime Lab funding as an example of a high priority request.

Mr. Pugh noted that the deferred maintenance list encompasses all regions. He stressed the importance of that piece.

Senator Ellis agreed with Chancellor Pugh that deferred maintenance requests are long overdue. He suggested looking at past deferred maintenance lists to see where the funding went. He expected that the funds of the past went to the buildings most in need. He supported the Life Sciences Building and Senator Thomas's efforts to fund it. He cautioned about bullying tactics or a "hostage situation" for the Life Sciences Building. He hoped for better communication with the university. He mentioned the importance of the project to the state.

[2:26:54 PM](#)

Senator Ellis continued to describe the collaboration behind the funding of the Health Sciences Building and suggested that the same be done for the Life Sciences Building - consider it a statewide need.

[2:28:22 PM](#) AT EASE

[2:45:04 PM](#) RECONVENED

Co-Chair Stedman addressed the issue of deferred maintenance.

[2:46:17 PM](#)

Senator Thomas described his preference for examining deferred maintenance items. He explained that he used the previous year's Redbook and took the top project from each campus for consideration. The projects on the list would be considered in order until the money runs out. Within three years, all of the big projects would be completed and the remaining projects more affordable.

Co-Chair Stedman agreed that such a process was smoother and more equitable.

Co-Chair Stedman reiterated that with oil at \$70 the budget is at "break even". By June of 2010 there may be a surplus of \$1 billion, but it probably would be consumed by education funding. For the next budget cycle, based on the current oil price, a robust capital budget is not expected.

[2:50:45 PM](#)

Senator Ellis thought he heard the university say that they could bond for up to \$100 million without negatively affecting the state's credit rating. He asked how much unutilized bonding capacity the university has, what the regents' plan for that is, and whether the regents have met with AHFC's Dan Fauske regarding state bonding for student housing.

Mr. Dosch reported that the university is currently at 1.7 percent of a 5 percent debt limit. There is some additional debt capacity.

[2:53:28 PM](#)

Ms. Redman noted that there have been many discussions with AHFC and more were pending. Financing for student housing in Anchorage and Fairbanks was assisted by AHFC. Ms. Redman stressed that for bonding, the revenue must be attached to a facility. Research revenues cannot pay off a bond for housing.

Co-Chair Stedman turned to performance measures.

[2:55:41 PM](#)

Ms. Rizk spoke of a challenge regarding securing funding for operating costs for new facilities. She looked forward to working with the legislature on this issue.

Ms. Rizk addressed the performance evaluation process which has been in place since FY 2004. The purpose is to communicate, drive, and measure resource alignment and make progress toward the Board of Regents' goals stated in the strategic plan. There are six performance measures and they

are updated yearly. They are a consideration when developing the budget.

[2:57:47 PM](#)

Senator Ellis suggested that the university remind the governor during the budget process that they have "kept the flame alive" regarding missions and performance measures. He recalled that when Governor Parnell was a legislator, he was a leader in establishing missions and measures.

Ms. Rizk related the emphasis needed on performance measures. Senator Ellis suggested using them to their advantage.

Co-Chair Stedman requested information on credit hours and head count. Ms. Rizk referred to handout 15, "September 2009 Performance Report to OMB/Legislature" (copy on file). It provides the university's performance status in September and hasn't been updated. The Redbook will show these statistics.

[3:00:49 PM](#)

Chancellor Ulmer commented that the reviews are done in great detail. She compared them to taking a final exam and an oral exam. The reviews show continuity over time. She urged Committee members to look at the performance review books. She thought the university could do a better job communicating the high standards and results of the reviews.

Co-Chair Stedman believed that the head count at a university increases during a poor economy. Chancellor Ulmer agreed. Co-Chair Stedman asked for current statistics. Chancellor Ulmer reported a 3 percent increase in enrollment at UAA. For first-time, full-time freshman enrollment is up by 15 percent.

[3:04:27 PM](#)

Chancellor Pugh observed that there was a 29.5 percent increase in new students, especially freshmen, at UAS. He also reported increases in workforce programs.

Ms. Henry related that the board is very involved in construction projects. She deferred to Kit Duke to address facilities.

[3:06:11 PM](#)

KIT DUKE, CHIEF FACILITIES OFFICER, UNIVERSITY OF ALASKA, ANCHORAGE, shared statistics related to facilities. She spoke about the significance of having older facilities and the need for maintenance expenses. The asset value of the

buildings is about \$1.9 billion, with the replacement value much higher. About 30 percent of the operating and maintenance budget goes to utilities, which leads the university to focus on conservation efforts. The cost of energy has doubled. She stated that the university looks for ways to save money. She noted that there is accountability in the facilities area with annual assessments. There is a high priority for capital reinvestment in facilities.

[3:09:28 PM](#)

Ms. Duke stated that the university has significant estimated deferred maintenance and renewal needs of over \$900 million. She hoped to receive adequate funding for those needs and voiced appreciation for the money the university has already received for that purpose. It is a better investment to maintain, rather than reconstruct, the buildings. Individual campuses must meet maintenance targets set each year and evaluate if the maintenance work being done meets the desired objectives. The university uses maintenance management software, which lessens the need for emergency repairs. She spoke of prioritizing work and the benefits of accountability in her department.

[3:12:48 PM](#)

Ms. Redman pointed out that handouts 10 and 11 include performance review documents.

[3:14:24 PM](#)

MARY RUTHERFORD, PRESIDENT, UNIVERSITY OF ALASKA FOUNDATION, reported on the amounts in the consolidated endowment fund, which contains the university's Land Grant Trust Fund, as well as the privately donated funds to benefit any of the campuses or programs within the university. She informed the Committee that the fund had a loss of around 24 percent in FY 2009. Previously, the consolidated fund had about \$258 million in it; about \$143 million in the Land Grant Trust Fund, and approximately \$116 million in the foundation endowment fund. By June 30, FY 2009, the total was about \$202 million; \$109 million in the Land Grant Trust Fund, and about \$93 million in the foundation fund. She provided a historic perspective of the fund, which has performed at around 8 percent over 21 years. The Land Grant Trust Funds are used to fund the AU Scholars Program. The private endowment portion represents over 600 individual endowments. Over 90 percent are designated for specific purposes.

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Ms. Rutherford stated that when the market declined an appeal was made to endowment creators asking for additional

contributions. In FY 2009 over \$13 million was donated to the endowments. Only two endowments were unable to make the payouts.

Co-Chair Stedman asked about the impact of lower endowment payouts on the state budget.

[3:19:46 PM](#)

Mr. Dosch spoke about two money sources, the endowment investments and non-endowment investments, which are the operating investments. The endowment investments, or the Land Grant Trust Fund, suffered a loss last year. The primary spending distribution from that Trust Fund goes to benefit the UA Scholars program, as well as the land management operations that generate dollars from land sales. Endowment losses have not had an impact on the Scholars program or the land management operations, nor is an impact expected.

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Mr. Dosch discussed the non-endowment funds which do generate investment income. Those investment earnings are largely kept as a funding source for the budget. Historically, there have been positive earnings; however, not much is expected in the near future and reductions in positions and expenses have been made. In the last year the portfolio was rebalanced.

[3:23:24 PM](#)

Co-Chair Stedman assumed there was a movement toward more liquid asset classes. He inquired what the payout rate was. Mr. Dosch answered that the payout rate for the Land Grant Trust Fund is 4.5 percent of a five-year, December 31, moving average. The board reduced that rate in April.

Ms. Redman underlined the point that the university has made a conscious choice to maintain the interest income revenue supporting statewide administration so that the campuses were protected from the market drop.

[3:25:43 PM](#)

Mr. Trubacz turned to accountability initiatives. He explained that accountability is the cornerstone of finance and administration statewide. There are many audits. One is done by a Japanese agency. He spoke of management reviews done in October and in March. He referred to handouts 10 and 11 which show trends and accountability from the MAU's position. Statewide also goes through the same process.

Mr. Trubacz related that in 2007, President Hamilton wanted a better look as to how statewide administration was performing. Handout 12, "MacTaggart/Rogers Review of SW Administration" contains that study. There is accountability by statewide to the MAU's and by the MAU's to statewide. In 2004 an Ad Hoc Committee on Accountability and Sustainability was formed, which resulted in many efficiencies and successful strategies.

[3:30:16 PM](#)

Mr. Trubacz concluded that there was also accountability at the academic level. Each MAU is accredited using an on-going process. Many of the departments also have their own accreditation process.

Co-Chair Stedman stated that the topic of the economics of research would be taken up after a break.

[3:32:40 PM](#)

AT EASE

[3:42:36 PM](#)

RECONVENED

Chancellor Rogers stated that the University of Alaska in Fairbanks is up about 5 to 6 percent in student credit hours over last year with the largest growth in the rural campuses. The College of Engineering and Mines is up 20 percent in student credit hours. Rural campus growth is largely due to the expansion of distance delivery. There are five rural campuses: Nome, Chukchi, Kotzebue, Kuskokwim, Bristol Bay, and Interior-Aleutians. The successes in rural campuses are due largely to the partnerships at the community level. He shared examples of Nome and Kotzebue partnerships. He mentioned a contract with the McDowell Group to review rural campuses.

[3:46:51 PM](#)

Co-Chair Hoffman asked how the rural program in Fairbanks is going. He suggested that Bernice Joseph address the question. He commented that there are a wide variety of rural programs.

[3:47:19 PM](#)

BERNICE JOSEPH, VICE PRESIDENT, RURAL COMMUNITIES AND NATIVE EDUCATION, UNIVERSITY OF ALASKA, informed the Committee that the Rural Services Program at UAF is doing very well. It is fully staffed and there are a record number of students this year. The Rural Alaska Honors Institute (RAHI) also has a record number of participants. A study done by NSF a few years ago showed that students who participate in RAHI are twice as likely to graduate with a BA.

Co-Chair Hoffman suggested that the program be represented highly to the administration. Ms. Joseph agreed.

Co-Chair Stedman pointed out that the Committee was aware of the University's revenue impact.

[3:49:34 PM](#)

PAT PITNEY, UNIVERSITY OF ALASKA, FAIRBANKS, spoke about the economics of research, which she termed as an industry heavily funded by the federal government. She referred to handout 9, "Research as an Economic Enterprise" (copy on file). In 2004 \$43 billion was the amount of revenue generated from research done at universities. She pointed out that research is a competitive industry. The opportunities research provides students are significant. The faculty is what makes an institution competitive.

[3:51:19 PM](#)

Ms. Pitney related that research is prioritized by the regents' strategic plan and the state's research and development plan required by SJR 44. The University of Alaska, Fairbanks' core strengths also help set priorities. The areas of core strength are the Geophysical Institute, School of Ocean Science, and Engineering, which are nationally competitive for research money.

[3:53:14 PM](#)

Ms. Pitney addressed earmarks, which account for about \$5 million a year. An attempt was made to reduce dependence on earmarks.

Ms. Pitney related that in addition to federal funding, there are stimulus funds available, which account for less than 10 percent. That will increase to 20 percent by the end of the year. Ms. Pitney explained that the principle investigators - the faculty that attract research dollars - build the programs. For every research faculty, five to eight employees are funded. This makes for a stable workforce of 2,300 research employees throughout the state.

[3:56:07 PM](#)

Ms. Pitney emphasized the quality of the jobs. It is an industry worth over \$100 million. She described the industry as a "money machine" that requires tending to. Research provides potential for other businesses, especially in the biological research area. She requested that Chancellor Rogers speak about the next level of research activity.

Chancellor Rogers spoke about the university's role of translating basic research into other economic development opportunities. There are several promising areas such as sudden infant death syndrome, traumatic brain injuries, cell manufacturing, and antioxidant properties of Alaska blueberries.

[3:59:27 PM](#)

Chancellor Rogers discussed unmanned aerial vehicles and how they can be used to monitor forest fires, offshore fishing violations, and homeland security operations. He spoke of the software security and energy research. The university is trying to find ways to apply the industry's products and services and improve Alaska's economy as a whole.

[4:01:04 PM](#)

Senator Ellis asked if any professor at any institution could apply for research grant funding. Ms. Pittney replied that that was accurate and it was happening statewide. Senator Ellis asked if the three city campuses are designated as research centers, as opposed to the rural campuses. Chancellor Rogers replied that rural campuses focus on teaching and public service and much less on research. A rural faculty can apply for grant-funded research. The University of Alaska, Fairbanks generates 90 percent of competitively funded research proposals system wide.

[4:02:55 PM](#)

ASHTON COMPTON, STUDENT REGENT, UNIVERSITY OF ALASKA, FAIRBANKS, said she was learning a lot from the experience.

#

ADJOURNMENT

The meeting was adjourned at 4:04 PM.