

HOUSE FINANCE COMMITTEE

March 13, 2019

1:32 p.m.

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CALL TO ORDER

Co-Chair Foster called the House Finance Committee meeting to order at 1:32 p.m.

MEMBERS PRESENT

Representative Neal Foster, Co-Chair
Representative Tammie Wilson, Co-Chair
Representative Jennifer Johnston, Vice-Chair
Representative Dan Ortiz, Vice-Chair
Representative Ben Carpenter
Representative Andy Josephson
Representative Gary Knopp
Representative Bart LeBon
Representative Kelly Merrick
Representative Colleen Sullivan-Leonard
Representative Cathy Tilton

MEMBERS ABSENT

None

ALSO PRESENT

Lacey Sanders, Budget Director, Office of Management and Budget; Donna Arduin, Director, Office of Management and Budget; James Johnsen, President, University of Alaska.

PRESENT VIA TELECONFERENCE

Stephanie Richard, Acting Administrative Service Director, Department of Military and Veterans Affairs.

SUMMARY

FY 20 BUDGET OVERVIEWS:

DEPARTMENT OF MILITARY and VETERANS AFFAIRS
UNIVERSITY OF ALASKA

Co-Chair Foster reviewed the meeting agenda and invited testifiers to the table.

^FY 20 DEPARTMENT BUDGET OVERVIEW: DEPARTMENT OF MILITARY AND VETERANS AFFAIRS

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LACEY SANDERS, BUDGET DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET, indicated Stephanie Richard was online and would walk the committee through the presentation for the Department of Military and Veterans Affairs (DMVA).

STEPHANIE RICHARD, ACTING ADMINISTRATIVE SERVICE DIRECTOR, DEPARTMENT OF MILITARY AND VETERANS AFFAIRS (via teleconference), introduced the PowerPoint presentation: "FY2020 Governor's Amended Budget." She would be presenting a technical overview of the department's FY 20 proposed operating budget.

Ms. Richard began with slide 3: "FY2020 Budget: Department of Military and Veterans' Affairs" showing the funding comparison and the budgeted position comparison. The graph on the left side was a funding graph that broke down the department's budget by general funds (GF), federal funds, and other funds. Other funds for the department included interagency receipts, statutory designated program receipts, capital improvement receipts, and Alaska Aerospace receipts. The total change in general funds from the FY 19 management plan to the FY 20 proposed budget was a reduction of \$940,100 or 5.5 percent of DMVA's total budget. She pointed to the chart on the right-hand side which showed a budgeted position comparison between the FY 19 management plan and the proposed budget for FY 20. In the FY 20 proposed budget the department saw the deletion of 2 permanent full-time positions and an addition of 1. The department had 2 position adjustments changing part-time positions to full-time positions. There was also a deletion of 2 long-term non-permanent positions.

Ms. Richard scrolled to slide 4: "FY2020 Budget: Department of Military and Veterans' Affairs Snapshot (\$ Thousands): New Funding for Honor Guard Support for Alaska Veterans: \$50.0 GF." The slide reflected the first of the department's budget changes in the FY 20 proposed budget. the department was requesting new funding for Honor Guard support for Alaska Veterans in the amount of \$50,000 in unrestricted general funds (UGF). The funds would allow for a 4 to 5-person detail consisting of Alaska National Guard

and/or Alaska State Defense members on active duty to conduct funeral honors for Alaska Veterans. The department estimated that the additional detail would allow for support for approximately 25 more funerals annually. She noted that Alaska's Veteran population was the highest per capita in the United States.

Representative LeBon suggested the detail was an expansion. He asked how many details the state currently had and how many funerals they provided service for on an annual basis.

Ms. Richard relayed that through 2013 the Alaska National Guard was funded and had 3 full-time Honor Guard teams. They also received additional funding for travel. Over the 4 preceding years they were able to support an average of 450 funerals annually. She reported 4 structure changes in 2013. The funeral honor support team through the National Guard decreased significantly in size. She indicated only 3 individuals were left and there were no funds for travel. The department received approximately 275 requests in 2014 and 2015 but could only support about 70 of those requests. Working to improve its reach, the department stretched to support an average of about 110 funerals annually between 2016 and 2018. However, the number of funerals was less than the number of requests received.

Co-Chair Foster indicated that Craig Christiansen, the Deputy Commissioner from Department of Military and Veterans Affairs, was available for questions.

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Ms. Richard moved to slide 5: "FY2020 Budget: Department of Military and Veterans' Affairs Snapshot (\$ Thousands): Remove Funding for Statutory/Volunteer Programs Which Are Subject to Funding Appropriation." The slide listed the removal of funding for statutory or volunteer programs which were subject to funding appropriations. The first reduction of \$300,000 GF was for the Local Emergency Planning Committee (LEPC). The Local Emergency Planning Committee was a state program funded completely through UGF. There were 21 LEPCs statewide with an average grant per community of \$13,100. The second item was the removal of funding for the Alaska State Defense Force in the amount of \$210,900 GF. The Alaska State Defense Force was a state-initiated force comprised of approximately 135 volunteer members. She provided a brief history of funding for the

Alaska State Defense Force. In FY 19, the department received an increment of \$210,900 to expand the rural presence of the Alaska State Defense Force. The purpose of the increment was to increase rural community capacity and resiliency. The department would continue to support the Alaska State Defense Force as it had done prior to receiving the increment in FY 19.

Vice-Chair Ortiz asked about the mission of the Alaska State Defense Force. Ms. Sanders explained that the Alaska State Defense Force was a group of volunteer members that were called in times of emergency or in support of something occurring in an area. There were groups throughout the state currently providing the service. The increment was to expand the function to rural areas.

Vice-Chair Ortiz asked if the Alaska State Defense Force participated in the Anchorage Earthquake. Ms. Sanders responded affirmatively.

Co-Chair Wilson asked about the effects of the reduction of \$210,000. She wondered whether the department would supplement the cut. Ms. Sanders responded that a portion of the funding was for 4 non-permanent positions that performed administrative functions. The department would no longer have those positions. The funding was also for equipment and supplies. However, the department would continue to support the groups in a management function.

Co-Chair Wilson asked for further clarification regarding the equipment and supplies. Ms. Sanders suggested that the communities could also support the costs if they had funds available.

Co-Chair Wilson asked if the equipment and supplies would have to be handled by volunteers. She wondered if they would be bringing supplies at their own cost. Ms. Sanders responded that the communities could support the costs if they had the funds available.

Co-Chair Wilson commented that the fund was the state's defense fund rather than the communities' defense fund. She asked if the volunteers were called out for issues of the state. It was her understanding that volunteers of the State Defense Force were called out for state emergencies more than for anything else. She was not aware of the

communities having the ability to call upon the group. She needed additional clarity.

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Ms. Sanders asked if she could provide clarification regarding the expectation of volunteers. She understood there was the Alaska State Defense Force, but there was also state active duty. In the time of an emergency the state could call volunteers under the state active duty role. She thought she might be getting the two confused. She would provide additional details to the committee.

Co-Chair Wilson asked for further detail about how the \$210,000 was spent. She thought the reduction meant the state was essentially saying to volunteers that they were no longer needed. She was concerned.

Vice-Chair Johnston asked if the amount was the only money provided to local communities for emergency planning. Ms. Sanders responded that it was the only grant funding supplied for local emergency funding. She mentioned that Homeland Security and Emergency Management might provide additional grant funding. However, she was unsure if it was specifically for emergency planning.

Vice-Chair Johnston queried the reason for taking the \$300,000. Ms. Sanders responded that when working with the department in developing the budget, they had reviewed the core programs and functions of the agency. She offered that while emergency response was absolutely necessary and a priority of the department, the funding was optional grant funding to communities and was a lower priority.

Co-Chair Foster asked if federal funds were being obtained to pay for the 21 LEPC positions. He wondered whether the reduced funds had been used to leverage federal funds or other funds or whether local communities were helping to pay for the positions. Ms. Sanders relayed that the \$300,000 for the LEPC were grant funds for communities. The communities essentially received a check and did their own planning. She was unaware that the money was match funding. She would get back to the committee with an answer.

Co-Chair Foster mentioned having one person in his community and was unsure whether the city paid for any portion of that position.

Representative Carpenter asked if the \$300,000 LEPC grant was tied to 21 individual positions. Ms. Sanders reiterated that it was up to the communities to determine how to spend grant monies. She could ask the department to find out from communities how they spent the money.

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Representative Carpenter thought it would be helpful to have the information. He also asked whether the \$210,000 was the total budget for the Alaska State Defense Force. Ms. Sanders understood it was all the funding the department had within its budget for the Alaska State Defense Force. It was an increment added the prior year.

Representative Carpenter clarified that prior to last year, there was nothing in the budget for the Alaska State Defense Force. Ms. Sanders responded, "That's correct."

Representative Knopp asked Ms. Sanders to recall what had been done in the prior year. He thought the Alaska State Defense Force had been included in some additional training and had been included in the worker's compensation pool, in case someone was injured during the training. There were a couple of other items passed in legislation in the previous year. He asked her if she remembered any details. Ms. Sanders was not familiar with the legislation Representative Knopp mentioned. She offered that if members were called into state active duty, they were covered. She was not clear what Representative Knopp was referring to. She offered to talk to the department and get back to the committee.

Ms. Richard indicated that regarding the grants received by LEPC communities and other grants received, the state's Homeland Security and Emergency Management Division had 2 other grants that were awarded to communities; The Emergency Management Preparedness Grant and the Homeland Security Grant. Both grants were not necessarily awarded to LEPC communities. She reported that there was not a federal match associated with the LEPC grant. She understood that several years prior, a portion of the funds could be used as matching funds, but it was no longer the case.

Ms. Richard discussed slide 6: "FY2020 Budget: Department of Military and Veterans' Affairs Snapshot (\$ Thousands)."

The slide showed a 50 percent travel reduction for the executive branch. She furthered that the total impact to general funds was a reduction of \$103,300. Two of the department's budgetary components were exempt from the travel reduction: Homeland Security and Emergency Management and State Active Duty. The exemption allowed the department to continue to provide responses to requests for assistance from other states and territories through the Emergency Management Assistance Compact. Another item on the slide was a fund swap within the Alaska Military Youth Academy. The net impact to the total budget was zero. The swap reflected moving \$100,000 GF receipt authority to statutory designated program receipts. The swap would allow the Alaska Military Youth Academy to collect funds from corporations or tribal entities wanting to contribute financially in support of the program.

Vice-Chair Johnston asked if the amount of \$100,000 was the only funding the Alaska Military Youth Academy received. Ms. Richard replied that it was only a small portion of the youth academy's total GF budget.

Vice-Chair Johnston wondered if the funding swap was to enable the youth academy to further develop public-private relationships with the hope of obtaining community financial support. Ms. Richard responded affirmatively. She offered that she had the Alaska Military Youth Academy's total general fund amount and general fund match amount. The total general fund match for the FY 20 proposed budget was \$1,226,700 and the total general fund amount was \$3,319,900.

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Representative Sullivan-Leonard asked how many youths participated in the program on an annual basis. She also queried whether there had been an increase in the number of applicants. Ms. Richard would get back to the committee with the figures.

Representative Sullivan-Leonard wondered if, in the past, organizations had wanted to contribute but had not been able to. Ms. Richard was not certain. However, the Alaska Military Youth Academy already received community support. The youth academy was a 501c3 organization which allowed the receipt of funds for expenditures that were not

specifically covered under the academy's Master Cooperative Agreement with the National Guard Bureau.

Co-Chair Foster asked if corporations were eligible for tax credits when contributing to the Alaska Military Youth Academy. Ms. Richard did not know the answer to Co-Chair Foster's Question. Ms. Sanders would look into it. She was uncertain about any requirements having to do with donating to an educational facility.

Ms. Richard concluded her overview of the department's proposed budget and was available for questions.

Co-Chair Wilson commented that there was not a policy director from the Office of Management and Budget (OMB) present at the meeting. She asked about the roles of policy directors within OMB and the department commissioners. She wondered who was making decisions within each of the agencies.

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DONNA ARDUIN, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET, explained that within OMB (charged with developing the governor's operating budget) there was a budget director (Ms. Sanders), a policy director (Mr. Barnhill), and a management director. All of the agency administrative services directors and analysts were on staff at OMB. The group worked together to develop the budget proposals. The administrative services directors and staff worked with the agencies. The budget plan was generated at OMB.

Co-Chair Wilson noted she had directed her policy questions to the commissioners of each department. She wondered if she should have been directing her questions to the OMB director. Ms. Arduin replied that that questions could be directed to any of the group. At the subcommittee meetings, OMB attempted to have administrative services directors and budget staff available to answer questions. Commissioners were present to discuss agency operations, as that was what they were in charge of. The Office of Management and Budget was aware that the legislature might have questions about agency operations and what effects the budget plans might have on their operations.

Co-Chair Wilson appreciated having people from OMB present at the meetings. However, she was trying to establish who

was making policy decisions within each of the departments. She used the Department of Corrections as an example to illustrate her question. She wondered whether the commissioner or the OMB policy director would decide to close a facility. Ms. Arduin relayed that all would be involved including policy staff inside the Office of the Governor. Once the budget was finalized, the agencies would carry out their missions and statutes with the amount of appropriations provided to them. The agencies occasionally sought and received policy direction from OMB's policy team and the policy team inside the governor's office.

Co-Chair Wilson wondered if there was someone other than the Board of Regents to discuss the University of Alaska (UA) budget. She further inquired whether state funding would be given, similar to a grant, to the Board to be used in whatever way it thought best served students. Ms. Arduin reported that Mr. Barnhill was the policy director for all of OMB. She suggested that because the administrative services director for the University did not work under the canopy of OMB, Mr. Barnhill was before the committee to present the governor's budget proposal for the University.

Co-Chair Wilson clarified that Mr. Barnhill was making the presentation but was not involved in the decision making for the University. The Board of Regents made the decisions about how the funds were used. She asked if she was correct. Ms. Arduin responded in the affirmative.

Representative Merrick asked whether there was state oversight regarding the LEPCs in communities. Ms. Arduin replied that the representatives from DMVA were no longer online. She would follow up with the representative later.

Representative Merrick asked Ms. Arduin to inquire whether communities were penalized for non-compliance and in what way.

Ms. Richard was aware that the Division of Homeland Security and Emergency Management had reporting requirements in place which were outlined in statute. Reports were received regarding expenditures for grants that were awarded. She could provide the information to the committee.

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Representative Josephson referred to slide 3. He asked for clarification regarding changes in statutory program receipts in the governor's budget. Ms. Richard indicated that the department had a fund swap within the Alaska Military Youth Academy in the amount of \$100,000 to allow the academy to collect funds from corporations and tribal entities. There was also an increase of \$300,000 in statutory designated program receipts within the Homeland Security and Emergency Management component to allow for sending its personnel to other states in response to requests for assistance from the Emergency Management Assistance Compact. The expenditures were reimbursed by the requesting state or territory.

Representative Josephson asked if she was talking about the same program used to send Alaskans to the boarder for security issues. Ms. Richard replied in the negative. The example Representative Josephson provided was through the National Guard Unit and was paid for by the federal government. It did not have to do with state designated program receipts within the State Active Duty component. An example of support within the State Active Duty component would be when Alaska sent National Guard members to help with hurricane relief.

^FY 20 DEPARTMENT BUDGET OVERVIEW: UNIVERSITY OF ALASKA

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JAMES JOHNSEN, PRESIDENT, UNIVERSITY OF ALASKA, introduced the PowerPoint presentation: "University of Alaska: FY20 Budget Discussion." He thanked members for the opportunity to speak to the committee. He had been in Washington D.C. on a hunting trip for research, policy, and a land grant. The trip reinforced the importance of the undesignated general fund as leverage for successful hunts for research funding and other funds from the federal government and other sources.

Mr. Johnsen began with slide 2: "University Mission." He conveyed that the University had a 3-part mission similar to other land grant universities such as in Michigan, Oregon, California, and other states. The University's mission three components: education, research, and service. The mission had remained roughly the same since 1915 when it was founded by congress as the Alaska Agricultural College and School of Mines. The mission was two-fold

through the three pathways. First, the mission was for the University to serve the post-secondary, higher education needs of Alaska. Second, the mission was to provide opportunities for Alaskans to create their own state. He spoke to a pride in education within Alaska. The University of Alaska performed 90 percent of the post-secondary education within the state. The University graduated approximately 5,000 students per year and had over 100,000 alumni. Last year, for the first time in the University's history, one of the alumni received the Rhodes Scholarship, the single-most prestigious scholarship in the world. The University of Alaska was the number one arctic research university in the world. In terms of service, the University was all across the state. He noted the Marine Advisory Program, the Cooperative Extension, and 4-H. The University reached out and extended the knowledge of faculty and students.

Vice-Chair Johnston mentioned that through the years she had heard positive feedback regarding alumni engagement. She queried about what kind of engagement the University participated in with its alumni and what kind of growth in alumni contributions had occurred in the prior 10 years. Mr. Johnsen was happy to provide the numbers to the committee.

Mr. Johnsen scrolled to the map on slide 3: "Serving All Alaskans." He emphasized the vast reach of UA. Geography was a major cost driver and was also an opportunity to provide service and access to people from Ketchikan to Kotzebue, a distance of about 1300 miles. He was often asked whether the University was three universities or one. He typically responded, "Yes." The University was one institution statutorily, one institution under the Alaska Constitution, one financial entity with one financial statement, one Information Technology system, and one set of Human Resource policies. In terms of academics, UA had three separately accredited universities. The system's 13 community colleges reported in to their regionally respective university.

Mr. Johnsen continued that the benefit to the University's structure was that it allowed students an array of choices. He suggest that if a student wanted to study at a STEM intensive research university, they would have access to the University of Alaska Fairbanks (UAF). For students that wanted to study in the state's largest city with high

connectivity and engagement with business in Alaska's economic hub, they could study at the University of Alaska Anchorage (UAA). If students wanted to study on the edge of a glacier and focus on maritime trade or mining education, they could study at the University of Alaska Southeast (UAS). In addition, UA had at least 50 completely online programs available to students across the state.

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Representative Sullivan-Leonard asked about the transference of credits within the university system and any associated issues. Mr. Johnsen relayed that Regent Dale Anderson pressed the issue and pushed a policy through that required the transfer of all credits. Presently, all credits transferred. However, credits might not transfer for a particular major. For instance, if a student took a statistics class for economics but changed their major to psychology, the statistics class might not transfer for the specific major degree requirements. However, the credits would transfer towards the 120 needed for a bachelorette degree.

Representative Knopp asked about the transfer of credits as they related to colleges in Alaska but outside the UA system. He mentioned Alaska Pacific University (APU). Mr. Johnson relayed that UA had an agreement with APU, a regionally accredited institution. The University worked closely with APU. He noted that the UAA library was a consortium library jointly funded by APU and UAA. The University's credits transferred to other accredited universities across the country. He added that when students came to Alaska with credits from other accredited universities 90 percent of the time the credits transferred.

Representative Knopp asked about the transfer of credits between UA and nationally accredited Christian colleges in Alaska. Mr. Johnsen replied, "On a case-by-case basis." He noted that the accreditation Representative Knopp was referring to was not regional accreditation. It was also not accreditation recognized by the Council of Higher Education - accreditors empowered by congress to approve the accreditors. In order for UA's students to qualify for federal funds UA had to be accredited by a regional accreditor approved by the national accrediting body.

Mr. Johnsen reviewed slide 4: "Education is a Core State Function." He reported that the making of the constitution occurred at the University. He noted the reference to the University in the state's constitution. There were two sections highlighted on the slide. He pointed to the personal property reflecting the land grant status of the University. The University of Alaska was the land grant university without land. The University was due, under congressional authority, 500,000 acres but was granted only 110,000 leaving Delaware as the only state that received a smaller land grant. The University of Alaska had been working very diligently to remedy the issue. He commended the governor, the commissioner of Department of Natural Resources (DNR), the federal delegation, and the Department of Interior for working with UA to resolve the 103-year land grant deficit. He surmised that some progress had been made.

Mr. Johnsen pointed to the second constitutional item on the slide. The Alaska Constitution provided broad discretion to the University's Board of Regents to lead the University. The University of Alaska's regents served 8-year terms. They were appointed by the governor and confirmed by the legislature. He relayed that the University received an appropriation annually. There were two appropriation lines for the University in the governor's proposed budget.

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Mr. Johnsen continued to the spreadsheet on slide 5: "University's Three-Part Mission." The table laid out how UGF, designated general funds (DGF), other funds, and federal funds were allocated across the University's three major missions: education, research, and service. He relayed that 80 percent of university funding went towards the education mission, 11 percent to the research mission, and 9 percent to the service mission. He pointed to the totals in the bottom left corner of the table. The undesignated general funds equaled \$327 million, 37 percent of the University's total budget. He continued that the remaining 63 percent of the budget was money the University received through enrollment, tuition, federal research grants, contract fees, and axillary revenues.

Mr. Johnsen advanced to the pie charts on slide 6: "Operating Expenditures by Category." The table reflected

the FY 18 actuals. The total budget in FY 18 was \$820 million. The general fund dollars equaled \$317 million and the rest was money raised by the university. He pointed out to the left-hand pie showing the allocation of funds across the various components. The funds included UGF, DGF, and other funds. The large components of the University's expenditures (41 percent) went towards academics. The right-hand chart supplied a breakdown of expenditures. He noted that instruction was the largest expenditure. Other components included academic support, student services, scholarships, libraries, and intercollegiate athletics - a \$12.7 million expenditure.

Mr. Johnsen moved to slide 7: "Regent's Strategic Objectives: 2017-2025." He reported the regents looking forward rather than simply reacting to the budget appropriated each year. In 2017, the regents looked at how to better serve the state's need for higher education. They also looked at how to stimulate Alaska's economy in order to have a more developed and diversified economy with more opportunities for Alaskans. He shared that Alaska led the nation in the percentage of its population having some college and no degree - a market the University had been pursuing aggressively.

Mr. Johnsen continued that the Board came up with several goals after talking with each other from across the state. There were 5 goals decided upon including economic development, a skilled workforce, research, degree attainment, and cost-effective operations. Some of the goals stretched to 2025 and some were for the interim. He pointed to one of the 2025 goals which was to increase the number of STEM graduates by 50 percent. He illuminated that the number of STEM graduates was a major predictor for a state's knowledge economy. He reported that states with knowledge economies had a strong population of science, technology, engineering, and math graduates. He relayed that economic development frequently came from universities in other states. The University had done a good job of a developing a strong workforce. He reported that increased training for teachers was a high priority.

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Vice-Chair Johnston liked the strategic objectives and understood why only one year of data had been observed. She surmised that the percent change was hopeful anticipation.

However, some of the observed data was not meeting the mark in 2018. She asked Mr. Johnsen to speak to the data.

Mr. Johnsen responded that in two slides her question would likely be answered. He went on to explain that degree attainment was critical. Alaska had the lowest college going rate in America. If the state was at the national average, it would be at 28,526. He relayed that 4 percent of Alaska's population was attending higher education. The national average was about 6 percent. He noted that in 1974 Alaska was at 6 percent. Since then, Alaska had declined. He spoke of the cost effectiveness numbers which were used nationally. They enabled the University to compare itself over time and to the rest of the nation. The figures were challenging. One of the problems with comparing Alaska to national averages was that not everything in Alaska was average. He noted that Alaska's geography, population, personal income tax, PFDs, and educational attainment were different from the rest of the country. He suggested that sometimes it was more important to look at variances rather than averages. However, the Board of Regents recognized the University needed to operate more cost effectively, hence the reason it was a strategic objective.

Mr. Johnsen discussed the challenges Alaska faced on slide 8: "Alaska's Challenges Are Real." The slide showed Alaska's ranking in a number of key areas. He thought it was important to recognize, when looking at the numbers, that UA faced some serious challenges. Alaska's university had certain advantages such as location, natural resource development, Alaska Native issues, business development, and climate issues. There were also some very positive things about Alaska. The slide showed some of the headwinds Alaska faced.

Co-Chair Wilson asked if the governor's performance scholarship had an impact on student performance. Mr. Johnsen responded affirmatively. Alaska's students were performing more rigorously through high school in order to qualify for the scholarship. He highlighted a slight uptick in students staying in state. The University had interviewed students who confirmed they took a more difficult curriculum because of the Alaska Performance Scholarship. He could follow-up with more detail about the decline in the requirement for developmental or remedial education. It had declined substantially over the past several years.

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Co-Chair Wilson had been asked a question by a high school teacher. She relayed that unlike other universities where certain tests were required to attend, UA did not have such requirements; anyone could attend. She asked if there was a set of standards people could reference to know what level a student had to be at in order to attend the University without having to take remedial classes that did not count towards a degree.

Mr. Johnsen believed the Alaska Performance Scholarship standards were not developed by the K-12 community alone. They were developed in conjunction with the University. The University of Alaska faculty met regularly with leaders in the school districts across the state to discuss the concept of college preparedness. He thought that an APS qualified student was college ready. He mentioned several programs and their success. He reported working very closely with Commissioner Johnson and with school district superintendents to strengthen the bond between UA, the UA community campuses, and the K-12 system.

Co-Chair Wilson had received feedback from high school teachers that when students had a goal, it made things go smoother before students reached the university level. She looked forward to receiving additional information.

Representative LeBon noted that Alaska was ranked fiftieth in post-secondary participation among the states. He asked about the success of Alaska's high school graduates who had entered the university system. He wondered about the standard number of years to obtain a degree in Alaska and statistics pertaining to the number of students who became degree holders.

Mr. Johnsen relayed that the national standard to obtain an associate degree was 3 years and to obtain a bachelorette degree was 6 years. The University had improved its numbers which he could supply to the committee later. He added that the University also looked at retention from freshman to sophomore and sophomore to junior years. The university was low and there was a dramatic difference between the three universities. He reported that UAF had a substantially higher 6-year completion rate followed by UAA then by UAS. He mentioned that because of Alaska's culture, most 6-year

students took 8 years to graduate. Alaska's university student was not a full-time student. A model student was a person taking 1 or 2 courses per semester and graduating with four kids running around them. He had personally been at commencements in Nome and Kotzebue. Even though Alaska applied the national standard and it looked bad, it was actually a win for the state.

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Mr. Johnsen detailed the bar chart on slide 9: "University UGF Funding History." He thought the slide provided a clear picture of the challenges the University faced. Beginning in FY 14 - FY 15 the University took a \$3 million UGF reduction. The University had experienced reductions since that time with one exception - a moderate increase in FY 19. He pointed out that if the orange portion representing the cumulative reduction including the governor's proposal was totaled, it would equal \$380 million. The University had borne a significant financial impact over the last several years.

Vice-Chair Ortiz wondered if Mr. Johnsen would be discussing some of the lost opportunities and programs resulting from the reductions since FY 15. Mr. Johnsen responded affirmatively. He indicated the picture would get gloomier. Vice-Chair Ortiz asked if Mr. Johnsen would highlight the costs and cuts to programs that the legislature had seen in the past few years. Mr. Johnsen responded positively.

Mr. Johnsen turned to slide 10: "Governor's FY20 Budget Proposal: By Major Fund Type - FY19 Mgmt Plan to FY20 GovAmd." He explained that the slide showed a side-by-side comparison of the governor's FY 20 budget proposal on the right-hand side to the current FY 19 management plan budget on the left-hand side. He pointed to the blue highlighted area representing the dramatic reduction in UGF. The green, grey, and beige areas represented the monies the University raised. The appearance of the governor's FY 20 amended budget was that it was going up - a function of a dramatic increase in DGF (money the University was apparently supposed to raise somehow by either doubling tuition, doubling research dollars, or by some other means). He did not think it was a reasonable appraisal of what would happen if the funds in blue were reduced. He indicated that UGF was what the University used to leverage for getting

additional funds. If the University leveraged \$2 of non-general funds DGF for every dollar of UGF, it would not be unreasonable to apply the same factor to the scenario on the right-hand of the slide. If the university reduced UGF, other funds would be reduced as well.

Representative Josephson mentioned a previous hearing on February 19, 2019 before the other body. In the hearing the administration conceded that it would be impossible for the UA system to double tuition. He wondered how the University would accommodate the proposed cut. He asked if one possibility of addressing the shortfall would be to shutter a campus.

Mr. Johnsen explained that there was no accommodating a cut of the proposed magnitude. He had a slide that showed that the University would have to close UAA and UAS to get to the \$134 million reduction. He mentioned that accreditation would be lost and there would still be a teach out obligation. The University had an obligation to see that students in the middle of their degree had the opportunity to finish. He suggested that the programs with students with declared majors was analogous to a jet being in the air. The University would have to make extremely difficult decisions with huge negative ramifications.

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Representative Josephson also recalled a member of the other body asking what part of DGF and federal funds the University could rely on with a substantial cut to UGF. Mr. Johnsen had responded with a negative number. He wondered how hunting for other funding would go if the cut of \$134 million remained in the budget.

Mr. Johnsen thought it was already being impacted. Students were currently deciding where they would go to college. He noted that when he was in Washington D.C. in the previous week he had met with some of the most senior research administrators in the country. They were familiar with the state's institution because UA led the world in Arctic research. They reported getting calls from UA's faculty asking for references. He supposed their resumes were in the mail. He reiterated his concern. He reasoned that investment was necessary to generate revenue. If the University cut back on the competitive faculty who were raising the research dollars, it would lose the revenue

from the grants and contracts, research students from classrooms, and intellectual property. It was the exact opposite direction the University needed to be heading in to develop and diversify its economy.

Representative Carpenter asked about the other portion of revenue. Mr. Johnsen replied that the University had auxiliaries and fees. For example, the University sometimes rented its facility space for revenues. It also received overhead monies in addition to specific research grants. The University charged students fees as well. He could provide specific accounting information to the committee. He confirmed that the University had a number of revenue sources. He also noted building sales and gravel sales.

Representative Carpenter asked about the land grant funding and where it was deposited. Mr. Johnsen responded that when the University sold land or timber, the funds went into the land grant endowment. The earnings off of the invested fund funded research activity. He noted that the funds for the scholarships granted within the Alaska Scholars Program came out of the land grant endowment.

Representative Carpenter asked if the funds were DGF. Mr. Johnsen responded affirmative.

Representative Carpenter commented that the \$154 million was a large amount to have to raise at one time. The bullet on the slide indicated that the amount was unrealistic. He wondered if the commissioner meant that it was never obtainable, or not realistic in the timeframe the University faced. Mr. Johnsen thought it would be possible sometime in the future if the University was sustainable and it could grow over time. He could not provide a time estimate because of recent history.

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Representative Carpenter reflected on a comment made by Mr. Johnsen previously about investing to grow revenue. He wondered, when the trend appeared in FY 15 to FY 19, what the University did to diversify its income away from UGF. He asked what other strategies were used to increase the University's ability to generate revenues.

Mr. Johnsen responded that the University increased its land grant sales including selling buildings and timber. He

admitted that such activities took a long time to mature. The monies went into an endowment and the resulting earnings were used for operations. They were one-time monies rather than a recurring fund source. He provided several examples of the actions taken by the university to cut deeper in response to the administration's goal.

Representative Carpenter understood that the state was dealing with an ongoing budget crisis and did not believe the legislature had dealt with the issue effectively. He wondered what had been attempted in the previous 5 years to deal with the crisis.

Mr. Johnsen countered that taking a cut as proposed would eliminate the capacity to teach, to do research, to support students, and to obtain grant monies. He has had to carry out many difficult reductions. He had contemplated how to manage a \$134 million cut. He concluded that there was no way to do so that would not be catastrophic. He conveyed that the 15 percent reduction to the University budget from 1988 to 1999 and the University being flat-funded for 10 years took years to recover.

Representative Carpenter talked about the strategy choices that had been made in the past about how the state would fund its University. The strategy was catching up presently. He was trying to understand what the right strategy would be going forward. The state could continue doing what it had already done or look to other states for ideas.

Mr. Johnsen did not think the state's fiscal situation had to do with how the legislature had previously funded education. He believed there were other factors that were influencing the situation.

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Vice-Chair Ortiz referred to slide 9. He highlighted the blue bar representing UGF funding several years prior to FY 14. He asked if the UGF funding went up in those years prior to FY 14. Mr. Johnsen replied that the blue bar had been going down. He expounded that 4 of the previous 5 years the bar had been declining.

Vice-Chair Ortiz clarified that he was talking about the period prior to FY 14. Mr. Johnsen answered that prior to

FY 14 the bar was moving up. The state was swimming in money. Vice-Chair Ortiz remarked that it reflected investment to allow for growth at the time. Mr. Johnsen responded in the affirmative.

Vice-Chair Ortiz reported the first budget he had worked on was in FY 15. Prior to becoming a legislator, he had been a high school teacher. He noted that as he got to the end of his career more and more students were choosing to attend UA. He supposed attendance was in response to the investment in the university system. He spoke of all of the advantages of keeping kids in the state. He agreed that the greater the investment made in the University, the greater the rewards would be. He thought the downward trend in investment was influencing student choices.

Vice-Chair Johnston returned to the strategic objectives, specifically number 5 on slide 7. The only observed data the University had was from 2017 to 2018 - the time in which larger cuts were applied and costs had increased. She wondered if there was a way of mitigating the increase in costs if the legislature strategically cut or flat funded education.

Mr. Johnsen suggested that part of the story told by the numbers was that the University's enrollment had declined faster than it could reduce its costs. That was the reason the costs appeared to go up. The calculation was completed per student. Ideally, the University would be able to generate more enrollment and grow. By driving enrollment up, the cost per student would go down. He argued that the to become more efficient, the University needed to reach the national enrollment average. He continued that it had been a challenge to reduce costs while enrollment-based revenues and state funding declined.

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Representative Knopp appreciated the University. He mentioned having several friends who had graduated from the UA system with various degrees. He asserted that the research component of the University was different from other universities in the country. He was uncertain about the endowment sustainability and enticing additional students. He thought that self-sustainment would be sought not only by the current administration but future ones as well. He asked if the University would ever be self-

sustaining or whether it would always be subject to subsidies.

Mr. Johnsen reported there was a handful of public universities around the US that were self-supporting. However, most universities received a state appropriation. He thought the average subsidy of state funding for public universities was about 25 percent. He pointed out that one of the anomalies in Alaska was that Alaska's communities did not contribute to the state's community colleges - the typical way community colleges were funded across America. The state had a few notable exceptions including the Kenai Borough which contributed about \$750,000 per year. Kodiak and Valdez contributed also. He thought it was possible to grow other funds over time. He mentioned the philanthropic campaign in its early stages. He thought the land grant remedy would help to generate revenues as well. He speculated that if UA was at the national average for enrollment, tuition would equal an additional \$70 million per year, equal to half of the proposed budget reduction. He thought it was conceivable over time to increase enrollment. It would also take positive support for the University's mission and a willingness to make tough decisions by the Board of Regents and the University. He opined that nobody would be attracted to and institution that appeared to be subject to a series of cuts. He agreed with the committee's sentiment that the University needed to be as self-sustaining as possible. He reiterated the importance of time, a positive psychology, and a positive vision for Alaska. He reemphasized the challenge the University faced with repetitive reductions.

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AT EASE

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Co-Chair Foster explained the reason for the "at ease."

Mr. Johnsen skipped ahead to slide 13: "Magnitude \$134 Mill Reduction." The slide showed the costs for some of the larger activities of the University. He pointed out that often the statewide administration was a target of potential reductions totaling about \$18 million, only 10 percent of the goal. It would not be a cost that could simply be eliminated. For example, there was no general

counsel or finance people at any of the individual campuses. The University would have to replace much of what the statewide administration did. Many people had suggested closing all of the rural campuses which would equate to a savings of only \$38 million which would not solve the fiscal problem. The University spent \$45 million per year maintaining its facilities. The amount did not include any deferred maintenance. The entire budget for UAA was \$120 million. Doubling tuition would equal \$140 million. The entire budget for UAF was \$164 million.

Mr. Johnsen talked about headcount reduction on slide 14: "Headcount Reductions." He reported that over the past several years UA had taken several reductions. He'd demonstrated the monetary reductions. The slide showed a reduction summary of headcount. The numbers did not include positions (or PCN's). The slide reflected the number of people who were no longer working at the University. The bottom line was that there were 1,283 fewer people working at the University from FY 15 to the present. The slide was organized across the top by major administrative units which included, Statewide, UAA, UAF, and UAS. The percentage reduction of the headcount of the Statewide unit was 32 percent. The funding cut for the unit was about 37 percent to 38 percent. He summarized that there had been a significant reduction of employment, including part-time and full-time, at the University. He suggested that if the University were to bare another large reduction, many more full-time positions would be cut. He estimated an additional reduction of personnel of about 1500 with a cut of \$134 million to the University's budget. Most of the 1500 employees would primarily be from the UAA and UAF campuses. There would also be other impacts across the state.

Mr. Johnsen advanced to slide 15: "Employee and Payroll." The slide showed additional numbers reflecting the economic impact to the institution. He reported that direct employment in FY 15 was 7500 positions and indirect employment was just over 15,000 jobs. The McDowell Group had done an economic impact study a couple of years prior and found that for a reduction of \$350 million in UGF the impact to the state's economy would be more than \$1 billion.

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Mr. Johnsen moved to slide 16: "State Divestment Compounds: Enrollment Challenges." He transitioned to the subject of enrollment. He highlighted that budget reductions were partially responsible for declines in enrollment. He noted that the nature of Alaska's economy was a high wage, low education economy compared to most other states. He thought the issue was reflected on the slide. He indicated that as economic activity was picking up, people were not pursuing education. The chart tracked the decline in Alaska's population. He reported that in the previous 6 years Alaska's population had been declining.

Mr. Johnsen turned to slide 17: "UA Tuition History." The slide showed what the University had done in the area of tuition over the prior 10 years. The most recent increase was at the Prince William Sound Community Campus in Kodiak. The campus was below the other community campuses. The increases were reflected from 2017-2020 to bring the Kodiak campus in line with the other community campuses in the state. He noted that the University reduced tuition by 25 percent in the high work-force demand occupational endorsements. He thought it had been a positive move bringing down the cost of vocational and technical programs.

Mr. Johnsen turned to slide 18: "Tuition and Fees - Public 4-Yr. Institutions." He reported that the University had been driving tuition up, not as dramatically as the rest of the country. He pointed to the green line representing the U.S. Average of public university tuition beginning in 2009-2010. The yellow bar represented the 15 Western Interstate Commission for Higher Education (WICHE) states. The University chose to show the WICHE states not only because UA was a member, but a large majority of students from Alaska who left to study in other states studied in WICHE states. They moved up quickly in the 2009-2012 period. Alaska's tuition was below the tuitions in comparable states across the country. The slide reflected averages. Tuitions might be comparable in other states to Alaska. Tuitions in states that had very strong dynamic economies where demand for higher education exceeded supply might be higher than the averages. He suggested that there was an opportunity for more increases to tuition rates.

Mr. Johnsen looked at slide 19: "Tuition and Fees - Public 2-Yr Institutions." The slide was a reflection of the legacy of the decision made in Alaska the last time there

was a fiscal crisis in the late 1980s. At the time, Alaska combined the community colleges with the universities and set tuitions at the same level. The yellow bars again represented the WICHE states, the green represented the U.S. average, and the blue represented UA. Alaska's tuition was nearly double the national average for the community and technical programs. He believed it was in large part a reason the University was seeing declines in enrollment in some of the vocational and technical programs. Those students were more price sensitive than students heading to university programs. He reiterated that the decision the Board of Regents made to move the University's tuition rates for certain programs was a step in the right direction.

Representative Carpenter commented that tuition and fees comprised one piece of revenue for the University. He suggested that another part of revenue, from 2009 to 2018 when the University had a lot of money, would be investments made into endowment-generating income. He asked Mr. Johnsen if he could follow up with more information on the subject. Mr. Johnsen was happy to provide the information.

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Representative Sullivan-Leonard asked about the effects of parents donating a portion of their PFD checks to the University for their kids. She wondered how many youths were taking advantage of the option. Mr. Johnsen would provide the information. The program was very important to UA. Representative Sullivan-Leonard commented that she was impressed with the program.

Mr. Johnsen continued to slide 20: "University's Statewide Footprint." He reported that the University had the oldest facilities in the state and a huge deferred maintenance backlog. He spoke of closing facilities and selling off properties. The University had eliminated all off-campus leases. He thought brick and mortar requirements would be looked at going forward. If the system were to grow in the future, UA was looking at alternative means of financing facilities using public-private partnerships. He spoke of the constraint of certain facilities being tied to bonds. In other words, some of the buildings had debt attached to them, and the process of selling them was more complicated.

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Mr. Johnsen advanced to slide 21: "Strategic Pathways: Continuous Improvement." The University had undergone a process called Strategic Pathways. The slide reflected the outcome of the process, which was a commitment to continuous improvement. He reported learning that going through the process was more important than the resulting plan. The University generated over 100 options for ways to streamline improved processes through the Strategic Pathways process. The University had closed schools, reduced degree and certificate programs by 50 percent, and standardized travel and grants and contracts processes. He pointed to the upper portion of the chart was what was common about UA. The blue at the bottom was also what was common and transferred across the university system. The middle part described each one of the universities and how they led academically in research, teaching, and outreach for the entire state. Moving forward he would be honing each one of the universities with the help of the Board of Regents. They would be looking at each of the universities and determining what was core to each of them and what was not. They would then look at available funding and determine what would be funded. He relayed that Research was something that had to be funded as well as nursing and healthcare education. Going forward with constrained budget times, certain things would no longer be funded.

Representative Josephson asked Mr. Johnsen about the plan to create a separate appropriation called "The Community Campus Appropriation" giving it \$25 million. He wondered if Mr. Johnsen understood what was being asked of the University.

Mr. Johnsen thought he understood. He remarked that it would be interesting because the associated campuses did not bare their full costs. There were large costs that supported the operations of the community campuses borne by the regional universities and at the statewide level. He thought the University would need to go through an extensive body of work to understand the intent and address how the campuses would sustain themselves. Currently, they had no ability to operate on their own.

Representative Josephson mentioned important sources including the Higher Education Executive Officer's Association and the National Center of Education Statistics

that came up with a mean per student national average of \$11,000 and suggested a premium multiplier. He asked Mr. Johnsen to comment.

Mr. Johnsen thought their numbers were accurate. However, he believed it was important to remember that Alaska was not an average state. He suggested that to understand Alaska it was important to look at variance rather than averages. The University had conducted some analysis that showed the University would have \$62 million of local government support for its community campuses, but it did not. If Alaska was an average state it would be spending less on small class sizes because of its relatively small population. There were other factors that needed to be considered. There was no question that the state analysis was correct. However, he opined that there were significant differences between Alaska and the averages across the nation. He had noted previously that property taxes were going into community colleges, income taxes that states charged people, and college going rates. Several factors played into Alaska's costs. He also noted Alaska's high energy costs and health care costs.

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Representative LeBon relayed he had participated in the Strategic Planning process a few years prior. Part of the effort had to do with athletics. He noted that athletics had not been included in the chart. He suggested that athletics between UAA and UAF accounted for about \$12 million or 1.5 percent of the budget. One of the tasks the committee had been charged with was to find a way to fund athletics at both campuses 100 percent through outside sources with no university funding by 2025. The committee had had several weeks to work on the challenge of finding alternative funding for the University's athletics program and looked to other colleges across the country. He suggested the challenge was akin to finding a needle in a haystack. He asked Mr. Johnsen if it was his vision to continue intercollegiate athletics at UAF and UAA.

Mr. Johnsen replied that several years ago when the regents had been asked the question, they had decided to continue athletics and to increase the share of the cost of the University's athletic programs with more private entities. Currently, there was no plan other than staying the course to try to generate more private support for the University

athletic programs. He was correct that there might be a handful of athletic programs that were fully funded through program revenues - they were all subsidized to some extent.

Mr. Johnsen elaborated on strategic pathways on slide 22: "Strategic Pathways: Continuous Improvement." He indicated the slide was a summary of what had already been presented about continuing to put pressure on and continuously improve what was being done at the University. He thought the people of Alaska had an incredibly valuable asset in the University and the university system. He admitted that UA was not the most cost-effective organization. He had discussed a number of factors that influenced its efficiency. He surmised, that the University asset would only perform if it was invested in driving change. The University could be more cost-effective and generate more internal revenue for investment in growth. However, growth in the areas of enrollment, research, and philanthropic support only came from targeted strategic investment. The University was all about growth and a positive view of Alaska. He thought there was no single instrument more important for Alaska's future than Alaska's higher education system. He thanked the committee.

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Representative Carpenter appreciated Mr. Johnsen's efforts. As the legislature looked at the amount that needed to be invested in Alaska's asset, he wanted to know if the University was interested in being self-sufficient. If so, he wanted to know the long-term plan to carry out the vision of being self-supporting.

Mr. Johnsen reported that the University would like to be less dependent but would always have some dependence on state funding. He suggested that the constitution provided for the University like it did schools. However, he would like to see a more diverse revenue stream for the State of Alaska. The University would, in turn, have more flexibility to invest in things. It would allow the University not to have to depend on an annual appropriation cycle. Much of the University's commitments were long-term. He would like for the University to become more dynamic and nimble.

Representative Carpenter appreciated Mr. Johnsen's comments. He thought Alaskans would want the University to

be as self-supporting as possible. He wondered if any ideas surrounding self-sufficiency came from Strategic Pathways or an internal effort to do things better.

Mr. Johnsen replied that it was more internally focused because of the University's recognition of its cost structures and cumbersome processes. The University had multiple processes for the same things. He reported that, moving forward, the University would try to increase revenue for athletics. The University was also in the early stages of its first statewide philanthropic campaign. The University's private 501c3 and the Board of Regents had approved a campaign plan. He noted that such a campaign cost money to hire fund raisers, consultants, and data analysts. It was also necessary to have a positive story to tell to attract support.

Representative LeBon returned to the issue of athletics. He commented on the difficulty of outsourcing athletics in the amount of \$12 million on an annual basis. He spoke of his 13 years of experience supporting an annual women's basketball tournament at UAF at Thanksgiving. The total amount raised over the history of the tournament was about \$350,000 or \$22,000 per year. He thought it would be a huge undertaking to raise \$12 million each year. He mentioned having several volunteers for the one tournament. He reiterated it being a big lift for the University to be more efficient, meet its mission, and to do so economically.

Mr. Johnsen highlighted that there were 230 Alaskans from across the state including students, faculty, and members of the community who generated over 100 options for how the University could move forward. He noted having attended over 182 meetings with faculty and staff on all of the campuses to address the various options.

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Co-Chair Wilson inquired about the land currently owned by the University. She asked when the University last developed its property and whether it could be developed to generate annual revenues.

Mr. Johnsen replied that the University had yearly revenues from leased properties, but the income was minimal. Most of the land granted to the University was not of tremendous

value. He reported that the University's largest revenue came from timber. He spoke of a property in Haines with potential for a timber project. He noted that the University was also looking at carbon credits, as it had a significant amount of black spruce. There were other avenues the University was considering monetizing lands that otherwise would not be valuable. He mentioned that the University sold residential lots in Fairbanks, the Interior, and in Southeast Alaska. He noted that it cost money to develop land and the University had a land management office. He thanked the committee for their support and questions.

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Co-Chair Foster indicated the rest of the agenda would be heard the following day at 9:00 am. He also relayed the agenda for the following afternoon.

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ADJOURNMENT

[3:30:42 PM](#)

The meeting was adjourned at 3:30 p.m.