

SENATE FINANCE COMMITTEE
UNIVERSITY OF ALASKA SUBCOMMITTEE MEETING
February 5, 2020
9:01 a.m.

[9:01:30 AM](#)

CALL TO ORDER

Senator Hoffman called the Senate Finance Committee meeting to order at 9:01 a.m.

MEMBERS PRESENT

Senator Natasha von Imhof, Co-Chair
Senator Bert Stedman, Co-Chair
Senator Click Bishop
Senator Lyman Hoffman
Senator Donny Olson
Senator Bill Wielechowski

MEMBERS ABSENT

Senator David Wilson

ALSO PRESENT

James Johnson, President, University of Alaska; Senator Gary Stevens; Senator Cathy Giessel.

SUMMARY

^UNIVERSITY OF ALASKA

NOTE: THIS MEETING WAS CONSIDERED A UNIVERSITY OF ALASKA SUBCOMMITTEE MEETING

[9:04:19 AM](#)

Senator Bishop noted the importance of the University of Alaska (UA), and the University of Alaska Fairbanks (UAF) impact on the local economy. He hoped that there could be a positive move forward in Fairbanks for the future.

Senator Hoffman acknowledged Senators Stevens and Giessel.

JAMES JOHNSON, PRESIDENT, UNIVERSITY OF ALASKA, noted the UA interns working in the various legislative offices. He thanked the committee for their work with those interns.

President Johnson discussed the presentation, "University of Alaska; Legislative Update; Senate Finance Committee and University Operating Budget Subcommittee" (copy on file). He highlighted slide 3, "Introduction":

State funding cuts from FY 2014 to FY 2019—and the threat of a 41 percent cut in FY 2020—have challenged the university's ability to serve its constitutional mission for the people of Alaska.

Led by the Board of Regents, the University is facing the challenge, committed to its mission, to lower operating expenses, and to investing in programs and initiatives that serve our students and contribute to Alaska's future by:

- Developing and diversifying our economy
- Preparing Alaskans for jobs in Alaska
- Conducting research to solve real problems and create new opportunities
- Increasing educational success through enrollment and completion

President Johnson addressed slide 5, "Three-Part Mission":

- Education
Delivering academic instruction, career and technical training
- Research
Advancing innovation and discovery through academic and scientific research
- Service
Sharing knowledge to address Alaska's community needs

President Johnson discussed slide 6, "Serving All Alaskans; Three Universities - One System":

- 1 legal and financial entity
- 3 separately accredited universities
- 13 community campuses
- 16,700 FTE Students, 24,900 total
- 92 percent of all Alaska higher education
- Affordable: less than \$7,200 (3rd most in US)

- Debt at graduation: 46 percent (2nd lowest)
 - Student's cost share: 28 percent (5th lowest)
- Source: ACPE's 2020 Alaska Education Almanac

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President Johnson looked at slide 7, "Strategic Goals":

- Contribute to Alaska's Economic Development
- Increase STEM graduates and invention disclosures
- Provide Alaska with a Skilled Workforce
- Increase UA's share of teacher hires and double health professionals
- Grow our World Class Research
- Stay number 1 in Arctic Research and increase research expenditures
- Increase Degree Attainment
- Increase enrollment and completions
- Operate More Cost Effectively
- Decrease cost per completion and increase completion rate

President Johnson addressed slide 8, "Structure":

- One legal, constitutional, and financial entity; three separately accredited universities with a governing Board and system office
- Current structure is the result of consolidation of 11 separately accredited community colleges in 1987
- That 2-year effort met strong resistance, spawned legislation, litigation, arbitration and a voter initiative...and it increased integration and reduced cost
- System office supports Regents, provides cost effective system wide services, and focuses universities on Alaska's statewide priorities
- Non-duplicated system functions include IT, audit, labor relations, financial/tax reporting, government relations, debt, treasury, payroll, risk management, general counsel, procurement, and health/benefits administration
- University Foundation, Land Management Office, and Education Trust of Alaska are largely self-funded

Co-Chair von Imhof noted the first bullet on the slide. She noted that there was a question about UAA losing its accreditation. She wondered whether there was a discussion

about whether all of the campuses could use the one accreditation.

President Johnson replied in the affirmative. He stated that the discussion would occur again in the upcoming spring.

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Co-Chair von Imhof appreciated that the Board of Regents would be examining the issue. She noted that the accreditation process was extensive and costly. She felt that streamlining the process to cover the three major university campuses might be a significant cost savings to the university.

President Johnson explained the two different types of accreditation. He shared that there was "specialized accreditation", which applied to specific programs. He announced that there was also "institutional accreditation", which accredits UAA as an entire entity. He noted that those accreditations were very strong.

President Johnson looked at slide 9, "Accreditation":

- UA universities receive their institutional accreditation from the Northwest Commission on Colleges and Universities (NWCCU)
- Board took a number of steps in consideration of legislative intent to move to a single institutional accreditation
- Board directed UA president to develop plan for evaluating options
- Convened group of state leaders for advice
- Held workshops across the system and provided opportunities for input from faculty, staff, students and the public
- Conducted extensive public opinion survey 3,900 participants
- Even split between those favoring "uniqueness" and those favoring "integration"
- Established working group to engage NWCCU and U.S. Dept. of Education on issues and timelines
- On Oct 7, after full consideration, Board ceased consideration of a single accreditation until UAF secures its NWCCU accreditation renewal in 2021

- All three universities (including community campuses) are fully accredited

President Johnson highlighted slide 10, "Statewide Footprint":

- University is largest landlord in State Government
- Are there assets that can be closed, sold or eliminated? YES!

Senator Bishop requested a brief update on the combined heat and power plant, and its anticipated annual savings.

President Johnson replied that he had seen emission coming from the plant, so it was operational. He noted that, with any very large complex operation may show some delays and repairs. He explained that the cost overrun was 3 percent, so it was perfectly reasonable given the length of how long it took to build the facility. He agreed to provide further information about the cost savings related to the building.

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Senator Hoffman thanked former Senate President Kelly for spearheading the efforts for the power plant.

Co-Chair von Imhof wondered whether there was a list of priorities for the backlog paydown of \$50 million.

President Johnson replied in the affirmative.

Co-Chair von Imhof wondered whether there was an outline of what could be expected in the future.

President Johnson clarified the question. He wondered whether there was an element of statute that could be changed to enable action.

Co-Chair von Imhof restated her question. She wondered whether there was a list of assets that showed whether university-owned buildings would be leased or sold for other non-university use. She specifically wondered if the DMV operations in a university building, were the result of the building being sold.

President Johnson replied that it was a lease agreement. He shared that there were current conversations about state

co-uses of some buildings. He remarked that it was a value across the state. He stressed that there was a constant examination for ways to monetize the university assets.

President Johnson discussed slide 11, "Significant Activity":

- FY20 Legislature includes budget intent language for Board to consider single accreditation
- Aug 13 Board of Regents signs 3-year Compact Agreement with Governor
- Aug 20 Board terminates Exigency Declaration
- Sep 26 NWCCU expresses concern over governance and accreditation
- Oct 7 Board ceases consideration of single accreditation and statewide expedited academic program reviews
- Oct 18 Universities begin campus level expedited academic program reviews
- Oct 30 Board responds to NWCCU concerns
- Nov 1 NWCCU confirms UA on "right path" on governance and accreditation
- Nov 22 Board responds to FY20 legislative intent regarding single accreditation
- Dec 3 Board transmits report to Governor and Legislature per Compact Agreement
- Dec 9 Board initiates policy audit clarifying roles and responsibilities
- Jan 17 Board approves 2020 work plan, 5 percent tuition increase for 2020, including \$1.5M of increased financial aid
- Feb 20 Board review of strategic goals and status of policy review

Senator Hoffman acknowledged former Bethel senator and former chairman of the Senate Finance Committee, Senator John Binkley

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President Johnson addressed slide 13, "2020 Legislative Priorities":

- Operating Budget
 - Year 2 compact funding - \$277M
 - Single appropriation structure
- Capital Budget

- \$50M Deferred Maintenance (backlog exceeds \$1.2B)
- \$2.5M Alaska Earthquake Center (USArray)
- Debt Service Relief
 - Significant fixed operating cost - \$28M annually (\$22.5 UGF)
 - Principal outstanding - \$297M

President Johnson discussed slide 14, "2020 Legislative Priorities":

- Technical Vocational Education Program (TVEP)
 - Program expires this year (June 2020)
 - Funded through payroll deductions \$12.4M in FY20
 - Funds high-demand career and technical training
 - UA receives 45 percent of program dollars \$5.6M in FY20
- Dual Enrollment
 - Expansion of High School/College enrollment
- Alaska Higher Education Investment Fund
 - Alaska Performance Scholarship (APS) Program: \$12M
 - Alaska Education Grant (AEG): \$6M
 - WWAMI Medical School Program: \$3M

Senator Hoffman requested the effectiveness of the Technical Vocational Education Program (TVEP).

President Johnson replied that the program was extremely effective because it was strongly tied to workforce needs and the Workforce Investment Board. He stated that it allowed for the ability to be very nimble, and responsive to changing workforce needs.

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President Johnson looked at slide 16, "3-Year Budget Compact":

- Agreement between Board and Governor Dunleavy - August 13
- \$70M (22 percent) reduction over 3-Yrs versus single-year cut of \$134M (41 percent)
 - FY20 \$302M (Down \$25M or 7.6 percent from FY19)
 - FY21 \$277M (Down \$25M or 8.3 percent from FY20)
- FY22 \$257M (Down \$20M or 7.2 percent from FY21)

- Best negotiated option for the University of Alaska
- Reduces cumulative 2020-2022 cut from \$405M to \$145M
- Requires a tremendous internal effort to meet reduced funding levels
- Secured Governor's support for single appropriation and other important priorities: AEG and APS scholarship, WWAMI medical school funding, dual enrollment and land grant initiative
- UA agreed to cost savings and revenue enhancement initiatives

Senator Hoffman noted that the Compact was signed between the Board of Regents and the Office of the Governor. He explained that the legislature was the appropriating body, and determined the level of funding for all agencies, including the university.

Senator Wielechowski queried the impacts to student enrollment and faculty from the previous year's "debacle."

President Johnson replied that the budget reductions starting in FY 16 had a negative impact on enrollment, employment, morale, and numbers. He stated that the number would be presented in the slides. He remarked that the impacted number of those on the payroll was 1,727 people.

Co-Chair Stedman felt that it was important to understand the number of checks through payroll that were submitted to individuals. He stressed that it showed the information as related to the employee count.

President Johnson pointed to slide 17, "Funding History and Projection." He stated that the slide reflected the compact agreement. He understood that the legislature had the appropriating power, but the slide showed that the Compact agreement was in effect. He noted the red portion that showed the reductions. He remarked that it reflected enrollment declines, morale declines, and the challenge in investing in new programs and initiatives to meet the changing needs. He stressed that the most important aspect of the slide was the cumulative impact of the desire to invest and change strategies.

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President Johnson looked at slide 18, "Funding History and Projection by MAU." He remarked that the slide showed the

funding history and projections by each academic unit of the University. He noted that UAA had been reduced by 31.4 percent; UAF had been reduced by 30.5 percent; UAS by 27.4 percent; and the statewide administration by 47.7 percent. He shared the percentages of each academic unit with the UGF: UAA was 36 percent; UAF was 49 percent; UAS was 8.5 percent; and statewide was 6 percent. He stressed that while the three universities were very different, UAF received support for research, for debt, rural mission, and higher utility cost. He remarked that UAA's community campuses received support from local governments.

President Johnson highlighted slide 19, "3-Yr Compact Budget Plan." He pointed out that in addition to the reductions, there were also significant investments in strategic initiatives and compensation. He shared that in FY 20, the faculty and staff received modest compensation increases based on the national averages. He stressed that it was not at an aspirational level, but was a phased-in approach. He remarked that he also wanted a 1 percent compensation adjustment to meet the cost of living standard. He felt that the universities needed to invest in the economic drivers such as workforce development and research.

Senator Hoffman recalled that the governor had expressed an attempt to educate the children. He noted the current legislation referred to as "The Alaska Reads Act." He queried the university's attempt to train Alaska's teachers to be prepared to look at the Alaska Reads Act to improve education among the young children.

President Johnson replied that the head of the Alaska College of Education was working closely with the commissioner of the Department of Education and Early Development (DEED) to contribute through the teacher education programs and the continuing education programs of those teachers. He did not believe that there was a current curriculum or an analysis of the financial impact on the university system.

Senator Hoffman remarked that the committee would receive a fiscal note on that bill in the upcoming days.

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Senator Bishop remarked that most people only saw the surface reductions, but there were major conversations about the importance of several programs. He stressed that the Compact was not prioritized by the legislature, and that the legislature would have its say in the process.

Senator Wielechowski wanted to know the impact to the state's economy and business communities. He wondered whether the funding cuts to the university would create more jobs in the private sector.

President Johnson replied that there was anecdotal information about the negative effect of the reductions on the economy, particularly among the highly skilled faculty and staff. He stressed that there was not comparable employment in Alaska for those individuals, so they would probably leave the state. He remarked that he had met with many people who showed significant concern about a reduction in purchasing and consumption, as a result of the funding cuts to the university.

President Johnson discussed slide 20, "Budget Impacts":

- Student support and administrative services have borne large share of \$76M reduction over last 6 years
 - HR and procurement restructuring and integration
 - Headcount reductions due to attrition and terminations
 - KUAC Radio/TV Base Funding Reduction
 - Fairbanks Administrative Services Building Sale
 - Chugach Eagle River Building Lease Non-Renewal
 - Kenai Peninsula College Residential Housing Paused
- \$45M additional reduction over FY21-22 will necessitate significant impacts to academic programs
- Universities aggressively working to achieve FY20 cuts while conducting academic and administrative program reviews

President Johnson displayed slide 21, "Academic Program Reviews":

- Board directed UA president to have universities conduct academic program reviews
- University reviews are underway

- In March 2020, chancellors will provide recommendations to the president regarding reduction, consolidation or discontinuation of any programs
- Board must approve any program changes and is expected to consider recommendations in June 2020
- Teach out obligations and faculty notice periods may mean financial savings are not achieved until FY22

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Co-Chair von Imhof noted the conversations about the number of academic concentrations offered by the university as a whole. She wondered whether the university would show a core streamlining, to focus on the big industries in the state versus some of the humanities. She wondered whether the university could work more closely with other job training centers to take over some of the job training.

President Johnson replied in the affirmative. He explained that the Board of Regents had set up criteria to address downsizing. He explained that, in addition to the goals and standard practices, there was a focus on the demand from students and employers. He remarked that there was analysis of workforce data and the needs in the industries in the state. That data was part of what went into determining the continuation of certain programs. He stressed that the same criteria applied to those who were studying the humanities. he explained that there were many history majors who worked for corporations. He also stated that there were many English majors who were doing important things for the economy.

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Senator Bishop stressed that the state had a connected career and technical education plan that the university, DEED, and the Department of Labor and Workforce Development (DLWD) were each a signatory. He felt that they should all be working in tandem to execute the goals. He remarked that there should be a target of the high impact legacy industry jobs because they were the workforce. He stressed that there should be workforce development initiatives in those targeted industries for the legislature's approval for expenditure funds.

President Johnson looked at slide 22, "FY20 Budget Allocation." He remarked that the slide showed the

breakdown of allocations for the FY 20 budget. He noted the reduction of \$25 million, and how it was distributed across the three universities. He noted that UAS was not reduced in UGF, because of the double-appropriation structure. He pointed to the \$2.3 million, which was a shared cost allocation. He explained that all three of the universities did not bear all of their costs. He remarked that the \$2.3 million paid for the legal, financial, and IT costs at UAS. He stated that the reductions were allocated on a prorated basis, and then there was an explanation of the investments. He explained that the compensation market was distributed according to the need at each university in order to fill the gap at each institution. The Title 9 funding was intended to "step up" the capacity to comply with federal requirements.

President Johnson pointed to slide 23, "FY21 Budget Proposed." He remarked that it assumed a single appropriation. He explained each line in the slide and stressed that the investments were still up for approval from the Board.

President Johnson discussed slide 25, "Operating Revenue by Type and Source." He noted that in FY 19 showed a total of \$818 million of sources revenues, which was a two and a half times multiplier in the state's university. He noted that there was a substantial restricted amount. He remarked that the freedoms for spending were limited to the restricted programs. He noted the example of research, which had limited and restricted amounts.

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Senator Bishop felt that the slide could show the direct and indirect economic benefit to the state on all funds.

Senator Hoffman asked that the information be provided to the committee.

President Johnson agreed to provide that information.

President Johnson highlighted slide 26, "Operating Expenditures by Category." The largest revenue source was student tuition and fees. He noted the core elements and detail of the expenditures.

President Johnson discussed slide 27, "Key Data: Enrollment." He felt that Senator Wielechowski was anticipating the slide. He noted the slope down since 2010, and noted the peak budget year of FY 11.

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Co-Chair Stedman looked at the current enrollment and wondered whether there was an acceleration on the downside of the headcount.

President Johnson responded that there will be a steep slope in the upcoming year, because of the effects of the year prior.

Co-Chair Stedman felt that, looking back a couple of slides, there was an allocation dealing with the proposed reduction to split the \$25 million. He remarked that the percentage of enrollment matched the percentage split on the dollars. He wondered how the allocations were split on the components, and whether it was a coincidence that the number lined up with the headcount.

President Johnson replied that the UGF reduction distribution was based solely on the UGF portion received by that institution. He explained that if a unit received 25 percent of the system's UGF than it would bear that same percentage of reduction. He noted that further reductions and investment decisions were not done pro rata.

Co-Chair Stedman noted that the downturn acceleration might suppose that all the components would decrease at a significant rate.

President Johnson replied that it was a real concern. He remarked that there was a focus on how to allocate different resources more strategically across the system, and how the universities would stem that decline.

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Co-Chair Stedman remarked that he wanted the university to explain the geographic component, which was out of the legislature's control. He understood that there were new budget realities, but felt that the geographic component would help to give a "soft landing" to the university.

Senator Bishop commented that there were many things that were not seen, which helped double the engineer graduates. He felt that it would be interesting to see the trend broken down by discipline.

President Johnson recalled that, if there was data prior to 2010, there would be positive slopes for UGF appropriations and enrollment.

Co-Chair Stedman was struggling with the alarming drop of 37 percent for UAS in 2011, versus almost 28 percent in the other two campuses. He requested a broader breakdown of the numbers in the rural campuses.

Senator Hoffman noted the request. He stressed that the legislature was the appropriating body.

Senator Wielechowski felt that it would be helpful to have percentages of students were enrolling in outside universities and colleges. He wanted to know why students were not enrolling in the university.

President Johnson replied that, in general, students were not enrolling anywhere. He stated that he would provide more information. He felt that the biggest challenge in Alaska was not those that were leaving the state, but rather was Alaska was not perusing any form of higher education.

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Co-Chair Stedman remarked that the numbers needed to be rechecked, because he had concluded different numbers in his calculations.

President Johnson looked at slide 28, "Key Data: Tuition." He stated that tuition rates were broken out by resident to non-resident, and undergraduate and graduate tuition. He explained that the tuition was competitive with the western states. He noted that, even with the tuition increase, it was still below the average of the 15 comparable states.

President Johnson discussed slide 29, "Key Data: Tuition and Fees." He remarked that the tuition for the community colleges was substantially higher than the other comparable states. The Board had been tasked to examine those high tuition rates.

President Johnson addressed slide 30, "Key Data: Workforce":

- UA has 1,727 fewer employees than five years ago
- Since FY15 total workforce has been reduced 21 percent
- MAPTS and K-12 Outreach moved from statewide to campus
- Regular employees (leadership, faculty and staff) are down 18 percent and temporary employees (adjunct, student and temp staff) down 24 percent
- Reductions have been achieved through a combination of attrition, retirement, ending term contracts, and eliminating or leaving positions vacant

President Johnson looked at slide 31, "Key Data: Turnover":

- Overall Average Turnover Rate at UA from FY15 to FY20 was 14.1 percent
- According to the Bureau of Labor Statistics (2019) annual turnover rate across all industries in the US ranges between 15 percent and 19 percent
- FY20 to date, we have exceeded FY19 in turnover of administrators and are nearing the FY19 totals for staff and faculty

President Johnson discussed slide 32, "Key Data: Voluntary Turnover":

- Voluntary turnover includes retirements, departures for other opportunities, and other categories such as medical necessity
- The overall average voluntary turnover rate for all employees in the University of Alaska System from FY15 to FY19 was 11.1 percent
- Comparable Peer Institutions: 7 percent Weber State Univ and 9 percent West Florida Univ

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President Johnson looked at slide 34, "Debt Profile and Context":

- Annual Debt Service = \$28 million (UGF component is \$22.5 million)
- Principal Outstanding = \$297 million

- Debt service is 5 percent of UA's unrestricted revenues, and has increased as revenue (UGF and Tuition) decline
- Fixed costs reduce management's capacity to make strategic reductions as revenues decline
- Examples of debt-financed projects: UAF Power Plant, UAF Engineering Building, Deferred Maintenance

President Johnson discussed slide 35, "Debt Profile and Context":

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

President Johnson highlighted slide 36, "Debt by Major Administrative Unit." He noted the annual debt service, the outstanding principal, the remaining debt service, and the maturity dates of each project.

Senator Hoffman queried the interest rate on each debt.

President Johnson agreed to provide that information.

Senator Bishop noted the conversations with the ratings agencies, and asked whether there was an indication of what could enhance the university's rating.

President Johnson replied in the affirmative and explained that the biggest factor in increasing the rating would be time.

President Johnson discussed slide 38, "Total Annual Debt Service." The debts were broken out by each university.

[10:20:10 AM](#)

President Johnson pointed to slide 39, "Total UA Debt Outstanding." He remarked that the slide showed out to FY 45, and the summary of the outstanding debt.

President Johnson displayed slide 40, "Debt: Key Takeaways":

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

President Johnson highlighted slide 42, "Conclusion":

The University of Alaska appreciates your support as we move forward, committed to serving our mission, to lower operating expenses, and to invest in the programs and initiatives that provide opportunities for our students and contribute to Alaska's future by:

- Developing and diversifying our economy
- Preparing Alaskans for jobs in Alaska
- Conducting research to solve real problems and create new opportunities
- Increasing educational success through enrollment and completion

Senator Bishop thanked President Johnson for the presentation. He remarked that he was looking forward to the future of the university. He hoped to build upon a proactive data set and research, and instruments to improve the university. He wanted to work together to decrease the turmoil. He remarked that it was a painful process, but hoped to commit to the lessons learned moving forward.

Senator Hoffman felt that the finance committee had been a friend of the university, and tried to get adequate funding to best meet the needs of Alaska. He looked forward to the additional meetings on the subject.

Senator Hoffman discussed the following day's agenda.

ADJOURNMENT

10:23:59 AM

The meeting was adjourned at 10:23 a.m.