

SENATE FINANCE COMMITTEE
March 14, 2022
1:01 p.m.

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CALL TO ORDER

Senator Hoffman called the Senate Finance Committee meeting to order at 1:01 p.m.

MEMBERS PRESENT

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

MEMBERS ABSENT

None

ALSO PRESENT

Pat Pitney, President, University of Alaska

SUMMARY

^BUDGET SUBCOMMITTEE OF THE WHOLE: PRESENTATION FY 23
UNIVERSITY OF ALASKA BUDGET OVERVIEW

PAT PITNEY, PRESIDENT, UNIVERSITY OF ALASKA, discussed the presentation, "University of Alaska; For Alaska; Senate Finance Subcommittee; UA; March 14, 2022" (copy on file).

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President Pitney displayed slide 2, "University of Alaska, Alaska's System of Higher Education."

President Pitney highlighted slide 3, "Essential to Alaska's economic recovery, diversity and growth":

- STABILITY
- CONFIDENCE
- TRUST

Strive to:

- Meet Alaska's workforce needs through increased skill and degree attainment
- Perform world class nationally competitive research
- Operate more cost effectively

President Pitney pointed to slide 4, "Students and Employees." She lamented that cuts to the system had led to the loss of 2400 employees and 11,000 students. She said that one-third of the base funding had been cut over the last 8 years.

Senator Wilson asked whether numbers could be provided pertaining to the number of full time and part time students.

President Pitney agreed to provide that information.

Senator Wielechowski queried the data on the loss of students and the rationale for the loss.

President Pitney replied that there were many compounding factors - fewer faculty had resulted in fewer course sections, lower high school graduation numbers in the state, outmigration of working age adults, the governor's FY20 veto, the initial sweep of the Higher Education Investment fund, Covid-19, and continued budget reductions. She said that her goal was to create financial stability. She appreciated the legislative support of the Higher Education Investment Fund.

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President Pitney addressed slide 5, "Enrollment Highlights":

- Enrollment fall 2021 semester
 - Systemwide enrollment decline of 6 percent, initial projection given budget and COVID was down 10 percent
 - Students enrolled exclusively at community campuses up 2.4 percent

- Many academic units saw increases over last year:
 - UAA: Kodiak and Prince William Sound College
 - UAF: College of Liberal Arts, College of Natural Science and Mathematics, College of Business and Security Management, College of Fisheries and Ocean Sciences, Bristol Bay, and Rural College
 - UAS: School of Career Education
- Enrollment spring 2022 semester (preliminary)
 - Applications up 3 percent, Admissions up 1 percent
 - Overall headcount down 6 percent
 - UA Scholars, newly admitted enrolled for spring up 5 percent
 - WUE and Come Home to Alaska program usage up 11 percent and 12 percent, respectively
 - Enrollment increases:
 - UAA: Prince William Sound College, Fast Track Programs
 - UAF: College of Fisheries and Ocean Sciences, College of Liberal Arts
 - UAS: School of Education, College of Arts and Sciences
- Graduation rates are at all time high
- Focus on Alaska Native student recruitment and retention
 - Retention of first time indigenous students up 4 percent at UAA, 16 percent at UAS in the last year.
- edX courses focus UAF research strengths: <https://www.edx.org/school/alaskax>
 - 12 courses and two professional certificate programs
 - total enrollment of over 20,000 learners from over 170 countries

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Senator von Imhof queried how much the university system classes were conducted online versus in-person classes.

President Pitney replied that Fall 2020 the split was 80 percent online and 20 percent in-person. She said that in-person was slowly returning and that the percentages were different at the different universities. She shared that

the Fairbanks campus was 45 percent online and 55 percent in-person, the Anchorage campus was 50 to 60 percent online and 40 percent in-person, Juneau campus was about 50/50. More face-to-face classes were expected across all campuses for fall of 2022.

Senator von Imhof remarked that her constituents did not like online classes. She asked when more in-person classes could be expected.

President Pitney replied that those face-to-face classes were important and expressed her hopes for the return of vibrant university campuses.

Senator Wilson queried the number of degree programs currently offered by the university.

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President Pitney responded that she would get back to the committee with the information. She believed it was in the high 300s.

Co-Chair Bishop wondered whether there were any faculty hiring issues at play.

President Pitney replied that the current hiring market was difficult but that the main problem was budget cuts. She said that the system was in the transition from reduction mode to stability mode. She said that the system was still in constraint mode and if lifted out by the current operating budget request they system would be in a rebalancing mode. She noted significant issues in healthcare; the demand for nurses was high and, by definition, the nursing faculty were nurses. She lamented that recruitment and retention was an issue.

Senator Olson asked about graduate level enrollment and whether there had been a reduction in students. He asked about the WWAMI program specifically.

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President Pitney replied that WWAMI applicants had remained consistent, and that the future of the Higher Education Investment Fund was a concern. She agreed to provide further information on all graduate and PHD students.

Senator Hoffman remarked that several years ago the university had increased funding for teacher training. He wondered whether part of the stabilization efforts was to concentrate on jobs that were needed in that state.

President Pitney replied that the board had revamped the Alaska College of Education Consortium to empower all three university schools and provide more education pathways. She spoke of the 13 available education pathways in Montana. She said that the board reallocated funds into the education program even during times of budget reductions. She reiterated that the funding constraint had been challenging and regaining stability was a priority.

President Pitney pointed to slide 7, "FY19 FY23 Operating Revenue and Budget Summary." She relayed that the board was requesting \$280 million in general funds; the governor had requested \$276 million. She stated that the \$280 million represented an \$8 million increase, or approximately 3 percent. She pointed to the \$72 million reduction, \$54 million of general funds and \$20 million in tuition and fees. She focused on the unrestricted revenue line, which showed a drop for \$535 million to \$462 million in FY22. She said that those were the funds available for the day-to-day running of the university. She noted the federal and designated restricted funds were specifically allocated and were not available for general use. She appreciated that those funds had increased.

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Senator Hoffman asked about the amount of unrestricted revenue appropriated by the legislature in FY21.

President Pitney replied that the FY21 appropriation had been \$277 million.

Senator Hoffman pointed out that \$277 million was what had been in the budget signed by the governor. He recalled that the legislature had increased the appropriation by \$20 million, which had not materialized. He reminded the public that the legislature recognized the importance of the university and higher education.

President Pitney addressed slide 8, "UA FY23 Operating Budget":

FY23: \$280.8M UGF

- Up \$8.0M (3.0 percent) from FY22 Budget (\$272.7M)
- Total fixed costs needs \$11.1M
- Governor's proposed UGF budget \$4.1M (1.5 percent)
 - \$4.0M UA fixed cost increases
 - \$0.1M Mental Health Trust recommendation
- Union contracts currently in negotiations additional amounts once negotiations reached
- Economic development projects \$36.1M
- Single Appropriation

Ms. Pitney stressed that the single appropriation, for one year, could help with rebalancing and then move to a multiple appropriation in an upsizing environment.

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Co-Chair Stedman spoke of the coming inflation cycle for FY23 and increased fuel costs. He wondered about the university's inflation exposure. He thought that the potential impacts should be considered as news of inflation continued to be negative

President Pitney responded that the proposal was modest and not consistent with high inflation. She lamented that the workforce at the university had seen a salary increase of 1 percent over the last 5 years. The proposal requested a 2 percent increase. She said that she could return with additional estimates and that coal and diesel contracts were significant.

Co-Chair Stedman thought that the fuel trigger could be considered as inflation expectations were increasing.

Senator Hoffman remarked that the fix costs represented on the slide were old. He requested up-to-date fixed costs for the university.

President Pitney pointed to slide 9, "FY23 \$11.1M Fixed Cost Needs":

UA's FY23 operating budget includes a modest adjustment of \$8.0M (3.0 percent) in state funds to partially fund \$11.1M in fixed cost increases common

across the system; plus any additional university specific operating cost increases. The Governor's proposed budget provides \$4.0M in state funds for UA FY23 fixed cost increases.

UA fixed cost increases common across the system (\$11.1M):

- Compensation increases (\$4.7M) for non union staff and firefighters in the past five years, except for a market adjustment in FY20, there has only been one across the board increase of 1 percent for employees. Union contracts expiring in FY22 are not included in the FY23 budget, but once a collective bargaining agreement has been approved a request for funding will be made through the appropriate legislative process.
- Information technology operating cost increases (\$1.0M) necessary to reduce the risk associated with operating in house hardware systems and increase the University's capabilities in terms of systems availability, agility, cybersecurity, disaster recovery and business continuity.
- The rising cost of insurance is a national issue. Insurance premiums have doubled for property coverage and other insurance coverages, such as cybersecurity coverage, have also seen significant increases (\$2.0M).
- Facilities maintenance funding (\$3.4M) is necessary to preserve capital assets critical to UA's mission. Several years of reduced operating budgets and minimal capital funds has increased the ongoing risk and evidence of building closures.

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Co-Chair Bishop pointed to the last bullet and surmised that the number did not include deferred maintenance.

President Pitney agreed.

President Pitney pointed to slide 10, "UA Economic Development Projects":

- \$36.1M for specific programs that help Alaska
 - UA Drone Program: \$10.0M*
 - Critical Minerals and Rare Earth Elements: \$7.8M*
 - Heavy Oil Recovery Method: \$5.0M*

- Mariculture, North Pacific Fisheries, Arctic and Pacific North Ocean Sciences \$7.0M
- Health \$3.75M**
- Alternate Energy \$2.5M***

- * In Governor's proposed FY23 operating budget
- ** Added in other body's subcommittee process
- *** In the Governor's amended FY23 capital budget

Senator Hoffman asked for more information about the Alternate Energy and whether it was related to the Micro-Nuclear Program.

President Pitney replied that half was related to the program and the other half was related to other alternative energy projects.

Senator Hoffman spoke of the high cost of energy in the state and the programs that had been introduced to reduce energy costs for Alaskans. He spoke of the war in Ukraine and wondered about how it would affect the cost of energy for residents. He spoke to the success of the weatherization program.

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President Pitney responded that the Alaska Center for Energy and Power was taking the lead and had several avenues that could be pursued. She agreed to provide more information.

Senator Wilson wondered whether the university expected additional federal dollars that would be matched by the state.

President Pitney replied that the federal funds were proposed on the state discretionary funds and had several partners involved. She said that the funds could be used to leverage additional competitive grants. She added that if there were an amount of available money for research match there were funds that could be pursued. She stressed that if there were a pool of matching state funds the state could compete for more federal funding.

Co-Chair Bishop asked for more information on the \$3.75 million for Health listed on slide 10.

President Pitney replied with slide 26, "UAA Health Program Faculty \$3.75 million":

- \$1.8M salaries, benefits and costs of the new faculty hired in FY22
- \$1.7M will be used to add faculty in the following
 - Medical imaging (diagnostic medical sonography and radiologic technology)
 - Certified nurse aide
 - Surgical technology
 - Pharmacy technology
 - Medical assisting
 - Behavioral health (social work and human services)
- \$0.25M upgrade and expand use of manikins and technology

President Pitney stressed that the faculty funding was not for new hires but was for the faculty hired to replace vacancies. She reiterated the competitive nature of hiring in the nursing field.

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Co-Chair Bishop surmised that the request was the university responding to the growing human resource needs in the healthcare industry.

President Pitney replied in the affirmative.

President Pitney addressed slide 11, "FY23 Capital Budget Summary (in millions of)." She pointed to the \$50 million for deferred maintenance and noted that the university had made the same request since 2008. She stressed that if the university received \$50 million for deferred maintenance on an annual basis, the deferred maintenance would not increase. She shared that the annual depreciation on facilities was approximately \$65 million per year and the \$50 million would allow the university to keep up on the backlog.

President Pitney pointed to slide 12, "Capital Budget DM/R&R Funding History Unrestricted General Funds and Backlog (in millions of \$)." Which showed a line graph of the UGF and backlog in millions.

Co-Chair Stedman remarked that the general deferred maintenance in the state, outside of the university, would reflect on a graph much the same way. He recalled that in 2006 there had been a revenue increase, which had resulted in more funding for deferred maintenance. He thought that it would be wise to address the current deferred maintenance issue while the state was experiencing a bump in revenue due to increased oil prices.

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Senator Hoffman remarked that the deferred maintenance funding in FY12 was the result of a finance committee chaired by Co-Chair Stedman.

President Pitney continued to address slide 11. She mentioned the student IT system modernization. He said that Covid-19 had highlighted the need for the update. She said that the funding required treasury approval and the university had worked with OMB for that approval.

President Pitney looked at slide 13, "Gov Proposed FY23 Capital Budget":

- UAF Bartlett Hall and Moore Hall Modernization and Renewal: \$18.7M (G.O. Bond funds)
- Student Information Technology Systems: \$20.0M (SoA Coronavirus Capital Projects federal)
- Seward Marine Center Research Vessel (Sikuliaq) Infrastructure: \$94.4M (UAF CFOS NSF federal funding authority)

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Co-Chair Bishop remarked that the funding for Bartlett and Moore Halls had occurred in the year prior and had been vetoed by the governor.

Senator Wilson wondered whether the university was in support of the GO bond or advocating for a different funding source.

President Pitney replied that she would be happy with any funding source to address deferred maintenance. She asserted that her advocacy was for sufficient and regular differed maintenance funding.

Co-Chair Stedman recalled that in the previous budget cycle the Bartlett and Moore Hall items had been requested by the administration, approved by the legislature, and then vetoed by the governor, only to be back as a request this year. He advocated not using debt to modernize the buildings but to use general funds while the resources were currently available.

President Pitney addressed slide 14, "Student Information Technology Systems: \$20M":

- State of Alaska Coronavirus Capital Projects federal funds
- Upgrade student information system to serve the entire university and compete in a post covid environment.
- Implement a modern system capable of facilitating student recruitment, retention, and success.
- Allow autonomy, when possible, where business practices are differentiated between campuses.
- UA would retain the benefits of a single system and a common reporting structure, while allowing each university to innovate and adapt the system more quickly to their changing requirements.

Co-Chair Bishop queried the process for the item proposal.

President Pitney replied that the item was proposed through OMB to treasury.

Senator Hoffman asked whether the more remote sites of the state would be served by the upgrade.

President Pitney clarified that the upgrade would serve all three universities in the system and their community campuses.

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President Pitney pointed to slide 15, "FY23 Gov Amend \$50M DM/RandR (top 5 \$33m)":

1. UAF Fairbanks Campus Building Interior and Systems Renewal \$20,500.0

Modernize both residence halls' (Bartlett and Moore) restrooms, laundry facilities and associated

sanitation infrastructure by replacing the plumbing systems and reconfiguring the restrooms to comply with current building codes, ADA standards and modern student resident expectations; replace the entire Bunnell elevator unit with a modern elevator within the same structural shaft; renovate one to two restrooms within each Duckering, Elvey, and Bunnell buildings with new fixtures, finishes, partitions, lighting, etc.

2. UAA Campus Building Interior and Systems Renewal \$11,171.0

Replace failing piping, inadequate electrical systems, inefficient lighting, boilers, fans, deficient variable air volume (vav) boxes and upgrade building automation system controls. This energy savings performance project will incorporate mechanical and electrical system improvements to three critical facilities, the Professional Studies Building (PSB), the Wendy Williamson Auditorium (WWA), and the Social Sciences Building (SSB).

3. UAS Deck Mansards Replacement Paul Building \$100.0

Replace the siding/roofing material with a Bermuda metal material that is more resistant to constant rain

4. UAA Consortium Library and Arcade and Bridge Lounge

Roof Replacement \$900.0 This project will demolish the existing roof system, increase parapet cap height, upgrade structural components for seismic restraint, replace roof decking as required and install a new roofing system.

5. UAF Moore-Bartlett Skarland Residence Exterior Lighting \$325.0

The project will replace inadequate exterior lighting with new, energy efficient LED fixtures on all four sides of the building.

President Pitney noted that the top 5 priorities for FY22 had been vetoed by the governor; the slide included the updated top 5 priorities for FY23.

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Senator Wilson asked whether the \$20,500.0 for item 1 on the list was included in the \$18.7 million request on slide 13.

President Pitney said that \$20,500.0 was the total project cost and \$18.7 million was included in the general obligation bond. She said that some of the project would not be eligible for a general obligation bond.

Senator Wilson asked for an additional list of what the additional \$20 million would cover, outside of the \$50 million for deferred maintenance.

President Pitney replied that top 5 priorities reflected \$33 million of the \$50 million and the list on slide 16 made up the remaining \$17 million.

Senator Wilson asked for an additional list that included priorities for the additional \$20 million.

President Pitney understood that Senator Wilson was asking for the to \$70 million in priorities she would provide that information.

Co-Chair Stedman lamented that Southeast campuses were not included on the priority list.

President Pitney pointed to slide 18, "UA Goals."

The University of Alaska inspires learning and advances and disseminates knowledge through teaching, research, and public service, emphasizing the North and its diverse peoples.

- Contribute to Alaska's economic development, skilled workforce, and engaged citizenship
- Foster academic excellence for student success
- Promote diversity, equity and inclusion in students, faculty and staff
- Grow our world-class research

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President Pitney highlighted slide 19, "Priority Focus Areas.":

- Increase Student Enrollment
- Develop workforce and focused economic development initiatives
- Promote Arctic policy, research and leadership
- Strengthen Teacher Education through the Alaska College of Education Consortium
- Advance the Alaska Native Success Initiative
- Increase Fisheries and Ocean Sciences presence in Southeast Alaska
- Revise business models for efficiency and modernization

President Pitney spoke of workforce development and the various focus areas pictured on the slide. She noted that as the arctic continued to open the future of the state should be to create leaders in the field. She said that the state's position in the arctic was strong and should be fortified through education and leadership.

Co-Chair Bishop commented on the \$5 million for heavy oil research. He mentioned a formation on the North Slope that contained 22 billion barrels of oil.

President Pitney continued to discuss Slide 19. She said that building finance capacity in the state was important. She shared that various finance workforce employee were needed across all specialties.

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President Pitney discussed the final area pictured on the slide.

President Pitney pointed to slide 20, "Contribute to Alaska's Economic Development, Skilled Workforce and Engaged Citizenship." The remaining slide discussed financial targets for the system over the next 5 years.

President Pitney looked at slide 21, "Foster Academic Excellence for Student Success."

Senator Wilson asked about the dual enrollment program and whether there had been a decrease in the number of college freshman taking remedial classes.

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President Pitney said that remedial classes were on the decline because the way students progressed successfully was by taking normal classes with additional support. She added that there could be financial aid impacts for enrolling in remedial classes.

Senator von Imhof wondered whether the university targeted large conventions in and out of state for student enrollment.

President Pitney replied that the university had targeted some markets. She said that the university was more focused on instate students. She thought that outdoor recreation could be a key market for out of state students.

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Co-Chair Stedman asked whether President Pitney had graduated for high school in Alaska.

President Pitney responded that she had graduated from high school in Montana.

Co-Chair Stedman noted that 5 members of the committee had graduated from high schools in Alaska. He stressed that opportunities were available for graduates in state and higher education was important. He believed that getting that message out to young people in Alaska, especially in rural areas, was important.

President Pitney pointed to slide 22, "Operate Cost Effectively." She said that philanthropy was a target as well as student debt. She said that student debt was low and that it should be consciously monitored.

President Pitney looked at slide 23, "Promote Diversity, Equity and Inclusion in Students, Faculty and Staff."

Senator Wilson requested a definition of "Indigenous Heritage" versus "Other Underrepresented Heritage".

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President Pitney replied that it was Alaska Natives versus all other minority groups. She said that the Alaska Native Success initiative led to aggressive targets for FY27. The focus was to raise the enrollment numbers of both groups.

Senator Wilson asked about the data pertaining to students in the underrepresented heritage group.

President Pitney agreed to provide the data.

President Pitney discussed slide 24, "FY19 FY32 Operating Revenue Baseline (in millions of \$)." She noted that in FY19, general funds made up 43.6 percent of the operating revenue, which had fallen to 38.4 percent in FY22. She said that under a stable fiscal environment the university could maintain the 38 percent while growing other revenue areas. She pointed to the green line representing tuition and fees. She said that budget cuts had impacted tuition, which impacted enrollment; research had not been as impacted and had absorbed more to the total. She hoped to regain enrollment. She stressed that the universities focus remained on the highest demand jobs in the state.

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Co-Chair Bishop asked for the slide to be redone to include deferred maintenance.

President Pitney replied that she would provide the information. She reiterated that the stability scenario should be \$50 million per year.

Senator Hoffman understood that the \$50 million was for deferred maintenance.

President Pitney replied in the affirmative; \$50 million for deferred maintenance annually in the Capital Budget.

Senator Olson remarked that the old IT system was troubling and hoped that the IT upgrade could be approved. He asked whether President Pitney was optimistic that the upgrade would be funded.

President Pitney replied that the current federal fund source was in question, and it would be better to secure a more reliable fund source. Having contingency language that

the upgrade would be funded with general fund if necessary was a high priority.

Senator Wilson remarked that Future Farmers grant was an important issue in his district. He wondered whether the university would work with the Department of Natural Resources (DNR) to transfer funding a assure that the program continued.

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President Pitney replied that the Future Farmers of America program was slated to transfer over the Division of Agriculture. The budget reductions at the university had prompted the movement of the program to DNR and the university had put forth funding to aid with the transfer.

Co-Chair Stedman noted that the largest operating budget reductions in FY22 were for the Alaska Marine Highway System and the University of Alaska. He said that the reductions had netted out with increased in other departments- resulting in zero savings. He expressed the desire that the university regain financial stability and look forward to the information related to the impact of inflation on the system. He asked whether there was anything in the "red book" that President Pitney thought that the public should be aware of.

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President Pitney clarified that the "red book" was the University of Alaska Board of Regents budget request to the legislature. It included the board's request, and provided information on programs, capital funding requests, and historical information about prior year's requests. She added that much of what was in the book had been included in the presentation.

Senator Hoffman remarked that red meant deficit and suggested that the book should be green to reflect growth.

President Pitney said she would consider the idea. She thanks the committee for their support of the university. She stressed that getting Alaskans to pursue higher two- and four-year degrees would have economic benefits for the state overall into the future.

Senator Hoffman requested more specifics on the growth of jobs in the fields of health and education.

#

ADJOURNMENT

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The meeting was adjourned at 2:28 p.m.