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January 12, 2015

The Honorable Bill Walker
Office of the Governor
P.O. Box 110001
Juneau, AK 99811-0001

Re: University of Alaska 5% and 8% Operating Budget Reduction Scenarios

Dear Governor Walker,

The Governor's Office and the legislature have consistently supported the university's efforts to update, streamline, and improve Alaska's higher education system by supporting our investments in areas where there is a compelling need to eliminate barriers to student success. Shaping Alaska's Future, the culmination of self-assessment efforts begun in 2011 and officially adopted as Board of Regents' policy last June, is UA's strategic commitment to continuous improvement. It is a performance plan for overcoming the tough terrain ahead, it will continue to guide decisions about people, programs and resources at UA for years to come, and the outcomes will derive primarily from the collaboration and coordination efforts among three very fine universities. Shaping Alaska's Future is supported by a dedicated Board of Regents who are passionate about their part in managing a thriving higher education institution in Alaska.

In 2015, UA's performance measurements began to confirm earlier indications of real performance improvements that had been initiated as far back as four years ago. Improving metrics are a validation of the legislature's investment in the changes we are implementing, such as efforts to improve graduation rates, streamline administrative processes, provide better student services and create a much better university experience for all our students. A small sampling of achievements thus far include:

- A graduation rate that is nearly 12 percent higher than the rate in FY10, and now in some cases exceeds the national average.
- Degrees and certificates awarded in FY14 at an all-time high and a 31 percent increase since FY10.
- Engineering degrees up 25 percent from FY10.
- Health degrees up 20 percent from FY10.
- Teacher education degrees, certificates, and licensures up nearly 27 percent since FY10
- Degrees in high-demand job areas up 22 percent since FY10.

- Online academic offerings at the highest level ever -- 129 programs
- Several national level recognitions at all three universities over the past two years for top performance and top faculty achievement.

In addition, we have received more than $650 million in highly competitive federal research grants since FY10 and we've increased our efforts and success at drawing more private support. Over the last five years, alumni giving increased by 100 percent. Private donations at $23 million were up 32 percent over FY13.

We have recorded a great deal of institutional and reputational success over a short period of time, but there is still much to be done. However, now Alaska is facing unforecasted, unprecedented and extended economic risks. Addressing those conditions through the state budget will affect the entire university system in a fundamental way. Our challenge is to keep on maintaining a level of sustainable momentum and above all not slip backwards. To do that we must identify and protect a restructured and sturdy solid core of high demand, high quality, balanced, affordable education and training offerings across the UA System, as well as support a cadre of faculty and staff that can see us through. At the same time we realize that UA is going to have to reconsider providing all things to all students, including the likelihood of adjusting overall program choices downward.

UA has already taken on substantial program prioritization reviews and has eliminated millions of dollars of expenses through other efficiencies and reductions. In FY15, this effort allowed us to manage a $17 million state general fund baseline (-4.6%) reduction and to absorb an additional $11 million in annual fixed cost increases. To continue on with even greater reductions in and beyond FY16 will challenge us to recast our entire UA portfolio of education and workforce development programs. In that endeavor we will not entertain any compromise of the high standard of education and workforce training that is currently afforded our students. At the beginning of each new day it remains our top priority.

This year's FY16 Board of Regent's operating budget had intended to continue UA's aforementioned progress toward mitigating the pressing educational issues we face in Alaskan higher education as we move along the path to attaining the high-payoff effects foreseen in Shaping Alaska's Future. It contained a very modest increase to the adjusted base for contractual and fixed costs, plus a carefully scrubbed program request designed to continue what was working well. For example, we reinvested in student advising and degree completion efforts that are currently demonstrating significant student achievement as a result of prior years' cumulative funding. The Regents' budget also continued to invest in education and workforce programs; in teacher education; health education; mining; and the fisheries, seafood, and maritime industries so we can meet the strong employee and skill demands we are receiving from all across Alaska. Our Board of Regents' capital budget request advocated for three very urgent capital investments. First, we asked to continue the state's long-term commitment to fund deferred maintenance. Second, we had hoped to obtain funding for completion of the UAF Engineering Building. Third, we requested special attention be directed toward State funded research that is directly related to Alaska's economy and that can be conducted here in Alaska by UA before it is offered to out of state universities or businesses. UA research is preeminent in potential revenue

producing and safety activities such as: unmanned aircraft systems utilization, alternative energy, space physics, remote power, micro-grid development, arctic sustainable development, and earthquake and tsunami awareness, to name a few.

All that said, unfortunately it would appear the Regent's budget (the so called Redbook) is entirely incompatible with $50 oil and a state budget deficit north of $3.5 billion so far. UA may have to reconsider near exigency level actions to confront the likely realities we expect to see in the Governor's amended budget in February. In that vein, the enclosed materials are designed to broadly illustrate the financial and functional nature of UA's response to OMB guidance. We translated percentages to dollars and dollars to "equivalencies" that better illustrate the magnitude of the functional decisions we will need to make in FY16 in order to offset the scale of the projected annual system wide reductions. The three universities and statewide have been charged with assessing the reduction impacts on staffing, activities and programs. Their findings will be discussed with the BOR in January. Timing wise, no actual actions can occur before they are carefully examined and accepted by the Regents of the University of Alaska.

In summary, the chancellors and I agree that in light of the predictions for tough sledding well beyond 2016, our goal must be to reach the State's eventual economic turnaround in an organizational condition healthy enough to make a successful recovery right along with Alaska. That means a strong university system "core" must be preserved throughout the period, quality must be preserved throughout that core, and a right-sized cadre of faculty and staff must be retained across the UA system to do the preserving. For example, we feel arctic research, a niche unique to UA, and of national/international importance, should be held harmless from too heavy a red pen. We agree that reputational degradation is a significant risk to UA's future. There would be an exodus of faculty, staff, and students and recruiting would dry up. The robust and competitive academic hiring we observe going on today in the lower 48 would leave us to pick among those unable to get work elsewhere. Tuition revenue would tumble along with headcount. Return earned on the tens of millions Alaska has invested over a dozen years to retain its sons and daughters to be educated and employed in-state would run its course. Ultimately, the recovery we had hoped to protect might take years and then only after a badly damaged institutional reputation was somehow repaired first. This scenario is not meant to be theatric. It happened to UA beginning early in the 1990s followed by "the desert years," and we still have not fully recovered. In simple terms, we are subject to the cultural and market driven organizational dynamics of higher education. So … our goal is not just to meet each annual budget one at a time over 4 or 5 tough years. Our strategic goal for Alaska's university system must be to shape conditions for a successful recovery, starting in February.

Respectfully,

Patrick K. Gamble
President, University of Alaska System

enclosure