

UNIVERSITY OF ALASKA

July 14, 2019

TO: Board of Regents

FROM: Jim Johnsen

SUBJECT: OMB Critique

While the data OMB used is generally correct, it is incomplete, lacks context, and draws misleading comparisons. The whitepaper includes erroneous comparisons between UA and public land grant institutions in smaller states. Those states have significantly larger populations providing economies of scale, better road systems, smaller distances, stronger economies, more stable and diverse tax regimes, and significantly larger land grants. They are not open enrollment universities, and these states maintain separate locally funded community college systems. Thus these institutions have higher graduation rates and lower costs. Simply put, UA is not Ohio State, University of Wisconsin, Michigan State, or the University of California, etc.

In addition, in formulating cost per Full Time Equivalent (FTE) for the community campuses and making comparisons among UAA, UAF and UAS, OMB neglects to include the required operational costs that those campuses do not bear, and fails to take into account differences among our universities in physical plant, utility costs and debt loads, despite the fact that we have communicated these differences to OMB.

I'll provide added context, data and history below, but before I do, I would like to emphasize that:

1. UA's current organizational structure, campus locations, program offerings, and many other components have been heavily influenced by decisions, laws, and policies made long in the past for reasons often outside UA's control.
2. In spite of the limitations imposed by this legacy, change has been steady and with a constant line-of-sight on cost savings in recent years. A strong commitment to improvement has been demonstrated. The Strategic Pathways process, discontinuation of over 50 programs, elimination of over 1,200 faculty and staff positions, an updated strategic plan that includes 5 clear goals tied to the state's needs for higher education, and establishment of a vision for higher education in Alaska in 2040 with input from constituencies both inside and outside of UA are a few examples of recent change initiatives.
3. We are not perfect. Change must continue and even accelerate. To accomplish this, we have reallocated and additional reallocations were planned to cut deeper in

some areas and invest in initiatives tied to our goals – economic development, workforce development, research, educational attainment, and cost effectiveness. (Please see the numerous presentations made to the BOR at its website with detail on these plans.)

4. Tough decisions will continue to be made in order to strengthen UA, no matter the outcome of this political process.
5. Like all universities, UA’s primary “customers” are students and its primary product is multi-year educational programs. Programmatic change must be implemented gradually to avoid disruption of students’ academic programs and resulting reputational damage to the institution. A good reflection of this reality is the obligation imposed by our accrediting agency that we offer “teach outs” for students whose programs are being discontinued.
6. My letter to the Governor of May 31 provides a good sense of our discussions, especially the problems inherent in application of averages to UA when Alaska is hardly average in any comparable respect to other states. The letter also reflects how transparent, and I think reasonable, we have been in seeking a constructive way forward.

The following provides some more specific responses.

OMB Statement	Response
<ul style="list-style-type: none"> <li>• State UGF funds for the University are cut by 41%, but University has access to much more than state funds. If other funding sources are maintained, the reduction is approx. 16% (from \$888.5mm to \$746.4mm)</li> </ul>	<p>The UGF reduction will drive massive dislocation and uncertainty, and reduce other revenues, including tuition, grant, contract and charitable giving. Reputational impacts and reductions in state scholarships and educational grants will cause declines in enrollment. Transition and teach-out costs will be incurred. The cumulative impact is conservatively estimated at more than \$200 million, and is further compounded by required delays in implementation.</p>
<ul style="list-style-type: none"> <li>• FY20 reductions take state contribution from more than double the average U.S. state contribution to about 35-40% higher than U.S. Average.</li> <li>• Univ. of AK UGF spending/student is among highest in U.S. \$16,391/student in AK v. \$7,642 U.S. average</li> </ul>	<p>Recent SHEEO OpEd says it well: “Perhaps the most critical point to consider is that Alaska has the lowest FTE enrollment nationally yet serves the largest geographical area. There are almost 11 million FTE students in public higher education across the 50 states, which means that the national “average”</p>

	<p>in per-student funding is based on a state serving about 220,000 FTE students.”</p> <p>“Most states are able to take advantage of larger enrollments over a much smaller geographical region reducing costs per student in a way that is simply not possible in Alaska. These geographic and demographic realities should not be used as a reason to cut funds for a state system that is called upon to educate and train all Alaskans in an effort to diversify and grow the state’s economy.”</p>
<ul style="list-style-type: none"> <li>• UAF UGF spending is even higher: \$30,000+/student (2018 UA data)</li> </ul>	<p>UAF’s cost per student is being inappropriately characterized, and ignores the research arm of the university, which leverages \$6 for every \$1 invested.</p> <p>If UAF’s expenditures per student FTE were calculated with UAF CTC and CRCD as part of the methodology, as reflective of how services are currently provided, UAF efficiency would be higher.</p> <p>UAF is currently within the range for cost/student FTE of the majority of land grant universities that are more similar in structure/function to UAF.</p> <p>In addition, UAF costs are increased by obligations that include:</p> <ul style="list-style-type: none"> <li>• Debt that results from lack of state funding for critical capital needs. UAF annual debt obligations are over 17% of its total UGF, compared to UAA at only 3.7%.</li> <li>• UAF’s facilities are on average more than 10 years older than UAA’s or UAS’s facilities. This equates to higher</li> </ul>

	<p>annual costs for operations and maintenance.</p> <ul style="list-style-type: none"> <li>• UAF’s community campuses are largely off the road system, making them more expensive to operate.</li> </ul>
<ul style="list-style-type: none"> <li>• In 2016 and 2019, Legislature advised Regents to <ul style="list-style-type: none"> <li>○ “develop a plan for consolidation”</li> <li>○ “increase self-supporting revenue and achieve a balanced, sustainable budget”</li> </ul> </li> </ul>	<p>The University has taken steps to re-focus its mission, reduce costs, increase private fundraising, address UA’s land grant deficit, develop strategic plans with measurable goals, consolidate administrative services (e.g. HR) and develop a compelling and exciting vision for how the university enables Alaskans to create a strong and sustainable future for our state. The Board also created a task force on the university’s structure which met on July 12 and expressed preliminary support for structural consolidation.</p>
<ul style="list-style-type: none"> <li>• In 2017, Moody’s downgraded University for over-reliance on state funding</li> </ul>	<p>Actually, Moody’s downgraded UA because of the state’s poor financial condition and structural imbalance. The state received a number of downgrades during this period.</p>
<ul style="list-style-type: none"> <li>• University has extensive duplicative programs: <ul style="list-style-type: none"> <li>○ 2 engineering schools</li> <li>○ 2 business/management schools</li> <li>○ multiple schools of arts and sciences</li> <li>○ multiple schools of education and teaching</li> </ul> </li> </ul>	<p>We have already reduced duplicative schools and are continuing to address redundancies. We eliminated one school of management and have streamlined our schools of education. It’s worth noting that reducing duplication of the schools of engineering, business, and education would save less than \$25 million.</p>
<ul style="list-style-type: none"> <li>• More than 50% of university staff are administrative or support in nature</li> </ul>	<p>Here are the numbers:</p> <ul style="list-style-type: none"> <li>• Represented Faculty, 1131, 17%</li> <li>• Executives &amp; Nonrep Faculty, 223, 3%</li> <li>• Local 6070 (Crafts &amp; Trades), 203, 3%</li> <li>• Staff (inc student services), 2330, 35%</li> <li>• Adjunct Faculty (temp), 843, 13%</li> <li>• Other Temporary, 527, 8%</li> <li>• Students (job training), 1335, 20%</li> </ul>

	<p>Total Employees 6,592</p> <p>In addition, according to Legislative Finance, the University has controlled its health plan cost trend better than any other public employer in the state. And our retirement program is less expensive than the state's.</p> <p>The majority of staff have not received a raise in three years.</p>
<ul style="list-style-type: none"> <li>University has extensive high paid executive staff</li> </ul>	<p>UA has 104 Executive positions. According to recently completed external compensation analysis, 75% of UA executives are paid well below the average pay of their peers. Overall, they are paid 13% below the market average.</p> <p>The majority of Executives have not received a pay increase in three years. UA employees' salaries are based on a 40 hour work week, as opposed to state employees who work a 37.5 hour week. Compensation overviews have been provided to the BOR and more detailed compensation data are available from UA CHRO, Keli-Hite McGee.</p> <p>In part, the number of executives is driven by our structure, so as the Task Force on UA Structure completes its work, this level of executive staffing will be subject to reduction.</p>
<ul style="list-style-type: none"> <li>The governor and legislature both separated the community campus appropriation from the university appropriation. The governor and legislature intended to hold the community campuses, including UAS, harmless.</li> </ul>	<p>Because OMB did not include costs these units need to operate, they were cut 12 million, the cost equivalent of the previously shared costs they do not provide for themselves. If treated as a separate unit with a separate appropriation, they will either need to duplicate those services at a greater</p>

<ul style="list-style-type: none"> <li>○ There is a question whether the University is seeking to extend cuts to the community campuses</li> </ul>	<p>aggregate cost, or reimburse for the shared costs provided. Interestingly UA’s appropriation included intent language regarding consolidation to one university, which reflects the legal reality that UA is one constitutional and legal entity.</p>
<ul style="list-style-type: none"> <li>● The University should consider consolidating university programs, and eliminate duplicative bureaucracy.</li> </ul>	<p>The UA Regents’ Task Force, led by well-respected Alaska business and education leaders had its first meeting 7/12. It reports to the Regents in September with a final report due in November.</p>
<ul style="list-style-type: none"> <li>● The University’s current retention and graduation rates are poor. <ul style="list-style-type: none"> <li>○ Low retention reflects a “waste both of human and financial resources.” Fisher Report, p. 12, 2011.</li> <li>○ University needs to focus its efforts on developing core high quality programs</li> <li>○ “University is substantially an unknown quantity in many academic disciplines and professional schools; failure to focus on core academic programs likely to result in “mediocrity.” Fisher Report, p. 11, 2011.</li> </ul> </li> </ul>	<p>Reliance on an eight year old report is unwarranted. Alaska’s students are unlike those in others states.. Our modal student is 28 years old, first generation attending college, part-time, and has at least one job. While our students may not complete in the time more traditional college students complete, they eventually do complete.</p> <p>In addition, it is important to note that UA is open enrollment, and includes community colleges, unlike any other university system in the US.</p> <p>As to our reputation, the most important industries in Alaska (fishing, oil and gas, mining, national security, health care, and education) hold our graduates and our research in high esteem.</p> <p>And without doubt, UA is world renowned in a variety of disciplines focused on our unique geographic location.</p>
<ul style="list-style-type: none"> <li>● The University needs to improve its fundraising efforts <ul style="list-style-type: none"> <li>○ In 2011, fundraising described by expert as “mediocre at best”; alumni giving is “embarrassingly low.” Fisher Report, p. 59, 2011.</li> </ul> </li> </ul>	<p>Reliance on an eight year old report is unwarranted. In July 2015, the Board of Regents and UA Foundation Board of Directors approved planning for a comprehensive system-wide fundraising effort. The goal of this effort is to raise public awareness of and increase private</p>

	<p>support for the University of Alaska in service to the state of Alaska. Since the campaign officially began in FY17, over \$81.5 million has been raised through philanthropic contributions in support of scholarships, research, public service, facilities, and delivery of programs. These funds are designated by donors to support specific purposes.</p> <p>We have implemented phone banks, resulting in large increase in number of alumni giving to UA.</p> <p>Severe fiscal challenges and uncertainty relative to State of Alaska funding levels makes a decrease in charitable donations likely. This environment means a continued commitment to development activities is even more critical.</p>
<ul style="list-style-type: none"> <li>• Research is an opportunity—brings in federal and private funds <ul style="list-style-type: none"> <li>○ University suggests state match is required for federal research funds <ul style="list-style-type: none"> <li>▪ But private universities with no state funds are among the highest recipients of federal research funds: Johns Hopkins, Univ. of Pennsylvania, Stanford, Duke, Yale, Harvard</li> </ul> </li> </ul> </li> </ul>	<p>Private universities such as those mentioned by OMB have enormous endowments, stratospheric tuition rates, strong private sector partners, and for obvious reasons, do not receive state funding to support private research. However most public universities do receive state funding.</p> <p>UAF, like most public universities, leverages state appropriation to create a 6:1 monetary return, as well as invaluable data regarding real world issues in Alaska. For private institutions such as Stanford, this support comes from gifts, external partnerships or earnings from their sizable endowment.</p>

