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April 25, 2020

TO: UAS Chancellor Caulfield
UAA Chancellor Sandeen
UAF Chancellor White

FROM: Jim Johnsen 

RE: Budget and Financial Management (revised from April 22, 2020)

Since my last memo to you on the budget March 9, a lot has happened. On the positive side, you presented your recommended plans for cost reduction in academic programs and administrative services. All but a few of the recommendations were passed by the Board's Academic and Student Affairs Committee (ASA). On the other hand, the Governor vetoed \$12.5 million from the operating budget for UA, there was no capital appropriation, and the COVID-19 pandemic has hit.

Your response to COVID-19 has been nothing but excellent. Thank you for your leadership and for the hard work and adaptability of our faculty, staff, and students.

As to the budget, I am concerned that the recommended cost reductions are—with some exceptions— not as substantial as possible and necessary, in some cases lack specificity, thus increasing execution risk, relying heavily on one-time funds and reserves, and a substantial portion do not take effect in time to meet the requirements of the Compact Agreement and direction from the Board of Regents. Further, they do not reflect inter-institutional coordination academically or administratively. As to the last point, I appreciate your focus on this opportunity and look forward to seeing your suggestions for additional cost reduction through inter-university collaboration.

Now add COVID-19 to our budget challenges, with direct costs in the low millions, and hits to our revenues projected to be north of \$35 million. Funding from the state and federal governments for COVID-19 response are unlikely to cover these costs and lost revenues. And all this is taking place

while the state's economy is reeling under historically low oil prices, declines in the investment market, and work stoppages in other key industry sectors such as tourism and fishing. Under these dire conditions, the Compact Agreement itself may be at risk.

The Audit Committee has requested a financial plan that includes the detail of base reductions and one-time reductions from available reserves. This is required to support the Board's fiduciary duty to the institution and oversight of UA finances. We have reviewed the numbers with the committee on two occasions and we will do so again May 13 or 14 (TBD). In preparation for that meeting, by May 6, each MAU Vice-Chancellor of Administration should work with Myron Dosch and Michelle Rizk to clearly identify base reductions sufficient to meet FY21 and FY22 UGF and compensation targets, consistent with the techniques and guidelines provided below. Myron and Michelle will identify cuts in the Statewide MAU.

Based on discussions with the Audit Committee and my review of our financial condition, I think we must continue to be aggressive in marketing, recruitment, and retention—which I appreciate that you are focused on—and vigilant at this critical time to maintain financial strength and solvency. To that end, there are several general management techniques as well as some specific guidelines we will follow.

General management techniques:

- Timely financial reporting, assessment, monitoring (quarterly)
- Use of our one-time reserves (e.g., UFB, debt reserve) is appropriate to bridge any base reductions necessarily delayed by notice requirements, within limits ensuring that reserves are available for unforeseen events and opportunities
- Specify base reductions to mitigate execution risk and ensure that identified/planned reductions will be timely implemented/realized
- Continued cost reduction in academic and non-academic areas through inter-university collaboration, program reduction, and consolidation
- Peer benchmarking in relation to cost effectiveness in all functional areas
- Allocate resources to core mission/high ROI functions from non-core functions
- Commitment to institutional accreditation, accountability to students, and consultation with governance and collective bargaining groups
- Maintenance of viability levels for critical support and compliance functions

Specific guidelines:

- Be at new base at end of FY22 (down \$70M UGF from FY19 and \$45M from FY20)

	State UGF Cut (pro rata)	Compensation			Total
		Market (FY21+22)	1% (FY21)	Total (FY21+22)	
UAA	16.3	2.6	1.4	4.0	20.3
UAF	22.2	3.2	1.9	5.1	27.3
UAS	3.6	0.2	0.3	0.5	4.1
SW	2.9	0.4	0.3	0.7	3.6
TOTAL	45.0	6.4	3.9	10.3	55.3

- Prudent use of our Unreserved Fund Balance (UFB): in order to have reserves needed for COVID and other unforeseen challenges and to invest in opportunities to grow revenue or other strategic priorities, UFB levels at each MAU will be no less than 2% at year-end FY20 and 4% at year-end FY22.
- Prudent use of our debt reserve funds: for the reasons and purposes stated above, debt reserve levels at each MAU will be no less than one-half of the maximum annual debt service at year end FY22.
- Implement a leadership furlough program (with corresponding salary reduction) effective July 1, 2020 and consider a general furlough program that would apply to all employees after COVID impacts are more clear in FY21.
- Consider delay in one or both compensation increases, consistent with our employee relations values, collective bargaining requirements, and the condition that all employees are treated equitably.
- Manage COVID-19 impacts from a combination of reserves, government aid programs, reduced operating expenses and other measures.

I look forward to working with you to secure UA's future in this perilous time.