UAF CHANCELLOR'S OFFICE
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April 10, 2020

TO: James R. Johnsen, President

FROM: Daniel M. White, Chancellor

RE: Addendum to Budget Planning Activities Between Now and FY22 Memo

This is an addendum to my earlier memorandum dated March 23, 2020 detailing budget planning activities between now and FY22.

Administrative Review Status

In early April, I received the Administrative Review report and recommendations for consideration as part of UAF's budget plans. The public comment period for feedback on this report is extended through April 12, 2020; therefore, I am still openly collecting input on recommendations. The major theme proposed is an expanded shared services center or centers, which could take several forms. To date, we are focusing plans on business transactional services (e.g. HR processing/PPA activities, purchasing, and travel services and support) across UAF.

I am proceeding with implementation planning for a transition to a Core Campus service center and a West Ridge service center model for support of the Fairbanks Campus. This will take some planning to implement successfully, but I expect transition to occur beginning in FY21 through FY22. This is likely to produce some savings, however, is also intended to increase reliability of services with backups for positions in thin areas, increase career ladders and development for employees, and will allow UAF to streamline and adopt best practices for high volume work. In addition, several position mergers were recommended by the administrative review committee that I am considering. As I receive additional feedback, I will continue to consider plans for additional actions.

COVID-19 Planning

We continue to learn about the impacts of COVID-19, both in terms of revenue losses and possible increases for student support. UAF is actively tracking these expenditures and revenue losses as part of a weekly submission process to the state OMB office and will seek any opportunity for appropriate reimbursement to offset COVID-19 costs. I have also recently issued a memorandum to UAF leadership to curtail any non-essential spending during this time of crisis, to ensure we can work toward increasing our unreserved fund balance (UFB) for use as bridge in an increasing time of uncertainty.

The State Epidemiologist has also recently suggested scenario planning for fall – whether it be fully online or whether learning and research can be conducted in person in ways to mitigate the spread of the virus in the event there is not progress in this regard over the summer months remains unknown. UAF will actively plan for regular offerings as well prepare a plan for transition to online modes of delivery, similar to this spring, and is proactive in this planning as opposed to reactive after the initial outbreak. We prefer to continue planning for fall residential student enrollment and/or in person delivery (heeding CDC and state and national guidance) until it may become impossible to do so.

FY21 Planning
With respect to FY21 additional detail, the UAF planning target to date ($15.8M) includes compensation increases for market and a general across the board 1% adjustment, which may be something to consider delaying until a future time in the increasingly constricted climate. The VCASs and CHRO Steve Patin are currently working through a series of workforce related options which will be presented to you and the Chancellors for decision. Without these added costs, UAF's planning target would be reflective of the $12.3M state UGF reduction and any unmet gap from FY20. Additional one-time actions, such as furloughs, may also be a necessary tool for consideration in FY21 or FY22.

Above all, increasing enrollment and packaging multi-year financial aid to ensure UAF's commitment to students is strong and the value in a UAF education is clear, is the priority. Enrollment has the greatest opportunity for impact on our revenue streams and therefore remains a primary focus. Tuition strategy, including possible differentiation, will likely be proposed for FY22 as part of UAF budget plans. The Planning and Budget Committee is meeting next week with the Tuition and Fee Committee and will receive some guidance and support from Ruffalo Noel Levitz (consultants already engaged for UAF Strategic Enrollment Planning) to inform the basis of their recommendations with information from peer and other institutions. I look forward to recommendations in this area as this work progresses.

To date, UAF has shared a worst case planning scenario with the UA Board of Regents Audit Committee using broad summary categories that are a combination of management areas listed below. Numbers vary slightly based on the different categorization.

Anticipated reductions by management area include:

UAF Estimates by Area	FY21 Estimated Reduction Impact*
Chancellor's Offices	-$451,200
Provost	-$4,449,800
Rural, Community & Native Education	-$1,509,200
Administrative Services	-$1,934,900
UAF OIT	-$320,000
Research	-$1,285,200
Student Affairs	-$849,700
Facilities Maintenance	*-$1,500,000*
Total UGF State Reduction Target	***-$12,300,000***
	*UA compensation increase is under discussion, may result in greater impact per area.

Plans are subject to change as enrollment or other revenue streams are developed. Additionally, where facility sales or other revenue sources emerge, including COVID-19 reimbursement, this will aid in UAF's ability to work through base operating reductions, leveraging revenues to ensure business continuity over time. UAF will utilize one-time and reserves where necessary to cover reduction targets on a year-to-year basis.

These reductions encompass recommendations put forward as part of the Expedited Academic Review and the Administrative Review. These reductions do not include additional actions that may be needed to cover unmet base reductions from prior years, and will be impacted by the timing of any teach out plans.

FY22 Planning

FY22 planning will be further developed as FY21 plans progress. Another round of Expedited Academic Reviews will begin in the fall for the second half of the UAF programs not reviewed in the first phase. Review of administration will continue on an ongoing basis. UAF is monitoring areas where cuts can no longer be taken, and will continue discussions in this regard in collaboration with the System Office and sister universities where reductions actions may impact other dependency areas.

DMW:jdp

cc: Julie Queen, Vice Chancellor for Administrative Services

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March 23, 2020

TO James Johnsen, President, University of Alaska

FROM Daniel M. White, Chancellor, University of Alaska Fairbanks

RE FY20-FY22 Budget Planning Update

The purpose of this memorandum is to respond to your request for budget planning between now and FY22.

FY20 reduction target:

GF Reduction	\$12.5M
UA Strategic Investments	\$2.5M
Comp (Market)	\$1.7M
TIX/Safety	\$0.3M
Total UAF Impact	\$17.0M

FY20 actions taken and remaining gap:

ATB applied to base	\$6.3M
KUAC base reduction	\$0.5M
Research base reduction	\$0.7M
Facilities Maintenance	\$2.5M
FY20 base GF Gap	\$7.0M

The base gap is the net reduction in operating funds that we will not meet as a result of the lateness of the budget and shortness of the time frame for making cuts and other adjustments. The \$7.0M will be made up by the following, barring other emergency related needs:

FY20 Use of reserves and one-time sources
Administrative services building sale (sold): \$1.1M
SW transition funds or UAF debt reserves: \$5.9M (maintains F1 UFB at/slightly above 2% required threshold)

UAF's debt service is an operating budget obligation. We pay this each year by committing operating budget to our debt service account for the current year and part of the following year. Because this reserve account has been maintained, it gives us some ability to draw against needed reserves to make this transition more smoothly. It is of course, a one-time account and makes us more vulnerable in future years, but it is my perspective at this time that this transition approach is needed.

FY21 reduction target:

GF Reduction	$12.3M
UA Strategic Investments	$0.0M
Comp (Market)	$1.6M
Comp (1% general)	$1.9M
Subtotal UAF Impact:	$15.8M

UAF strategic investments	$1.0M (TBD; may go to $0)
FY20 unmet gap	$7.0M
FY21 Planning target	$23.8M

FY21 planned actions and remaining gap:

ATB applied to base (15%)	-$15.0M (some units may not meet target)
Academic cuts	<$1.5M (total $3M estimated from current review, half in FY21)
Administrative cuts	<$1.5M
Furlough	-$2.5M (one-time action; could be coupled with holiday closures)
FY21 base GF gap	$3.3M – 8.0M (inclusive of any remaining FY20 gap, rolled forward)

The base gap is the net reduction in operating funds that we will not meet as a result of time needed for implementation of cuts. Furthermore, we have made and continue to make vertical cuts. These cuts have been allowed to count toward horizontal cuts assigned to units where savings accrue. For example, when we terminated the UAF agricultural reindeer operation (a vertical cut) the agricultural research program was allowed to count this cut towards their ATB target. As such, the "academic and administrative" cuts above may be wrapped into the 15% ATB planning since if we cut an engineering discipline, for example, the College of Engineering and Mines would count that in their ATB total; it would not count again in the academic line.

A temporary furlough in FY21 will help support the transition. The gap will be made up by using SW Transition funds, land sales, or UAF debt reserves. The sales of facilities were excluded from our planning by direction, but the Seward property sales are already approved for sale and already approved by the BOR for transition funds. In addition, we expect that in FY21 we could obtain approximately $3M in power sales (early estimates are being refined) which, by offsetting central utilities expenses, would free up base funds and could close the gap significantly on an ongoing basis. If not, transition funds will be drawn from the debt reserve account or SW bridge.

FY22 reduction target:

GF Reduction	$9.9M
UA Strategic Investments	$0.0M
Comp (Market)	$1.6M
Subtotal UAF Impact:	$11.5M
UAF strategic investments	$1.0M (TBD; may go to $0)
FY21 unmet gap	$3.3M-8.0M
FY22 Planning target	$15.8M-$20.5M

FY22 planned actions and remaining gap:

ATB applied to base (5%)	-$6.0M (some units may not meet target)
Academic cuts	<$3.0M (up to $6M from cumulative rounds 1 and 2 of review)
Administrative cuts	<$1.5M
Furlough	-$2.5M (one-time action; could be coupled with holiday closures)
FY22 base GF gap	$2.8M-$7.5M (inclusive of previous unmet gaps, rolled forward)

The FY22 base gap is the net reduction in operating funds that we will not meet as we continue the transition. A continued temporary furlough will help support the transition. By this point, we expect that we are in a position to obtain new revenue in power sales that would help close the gap. Tuition strategy and enrollment projections will also be a factor, not listed here.

This analysis lacks specifics in which academic programs will be cut and how the across the board reductions are managed. To date, the legislature has proposed an increase in the operating budget with no capital budget or DM relief. If an operating increment comes through, although not at UA's request, this would provide an opportunity to evaluate how to preserve critical functions and minimize immediate base reductions. UAF currently takes just under 50% of all base GF reductions, although millions are dedicated to debt service. Any capital budget or DM increment remains a critical priority.

We continue to operate on the assumption that UAF tuition revenue is flat. That is, an increase in the tuition rate (at the 5% level) is offset by enrollment declines (based on prior year trends). We are of course working to bend this curve through UAF investments in Strategic Enrollment Planning. Differential tuition, if adopted, may also impact budget planning. Coupled with investments in student financial aid, differential tuition could bolster the commitments made to students as well as help students and parents see the value of a UAF education with an affordable sticker price.

Unfortunately, the current COVID-19 crisis and persistent uncertainty in state support of student aid/higher education is not likely to allow for immediate growth. This analysis does not take into account lost revenue from the COVID-19 pandemic, or savings. This health issue may require us to examine our business operations, although UAF is well positioned to continue leading UAF-specific or expand to deliver UA-wide online programs through eCampus' innovative model.

DMW:jdp