Proposed
FY23 Operating Budget

Board of Regents
November 11-12, 2021

Prepared by: University of Alaska
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Stable state support allows UA programs to continue to support Alaska business and industries, local communities, the state and national security. Between the compact and downsizing UA is now operating with an unrestricted base that has been reduced by more than $70 million since FY19. The state reductions have taken UA’s finances back to 1998.

UA’s proposed FY23 operating budget includes a modest adjustment of $8.0 million (2.9%) in state funds, for a total state appropriation of $280.7 million. In addition to state funding, UA expects to need an increase to federal receipt authority to support increased research activity at UAF. Current estimates are $35 million in FY22 with an additional $15 million in FY23 (total $50.0 million).

### FY23 Operating Budget Summary (in thousands of $)

<table>
<thead>
<tr>
<th></th>
<th>State Funds</th>
<th>Non-State Funds</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY22 Operating Budget</td>
<td>$272,733.5</td>
<td>$521,760.0</td>
<td>$794,493.5</td>
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<tr>
<td>Operating Budget Changes</td>
<td></td>
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<tr>
<td>Modest General Fund Increase</td>
<td>8,000.0</td>
<td></td>
<td>8,000.0</td>
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<td>Federal Receipt Authority (FY22 &amp; FY23)</td>
<td></td>
<td>$50,000.0</td>
<td>$50,000.0</td>
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<tr>
<td>MHT &amp; TVEP *</td>
<td>TBD</td>
<td>TBD</td>
<td>TBD</td>
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<tr>
<td>FY23 Proposed Operating Budget</td>
<td>$280,733.5</td>
<td>$571,760.0</td>
<td>$852,493.5</td>
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</tbody>
</table>

* Mental Health Trust (MHT) and Technical Vocational Education Program (TVEP)

Of the $852.5 million total budget authority, $468.7 million (55%) is from unrestricted sources. Including, $280.7 million from state general funds and $188.0 million expected to be generated from unrestricted revenue sources to support general university operations. In FY23 $260.0 million is expected to be generated from and to support restricted or designated activities, thus UA is directed by the funding entity as to how the funds may be spent.

In FY23 UA expects a net $2.1 million decrease in unrestricted earned revenue. Tuition and fee revenue is projected to continue to decrease ($3.5 million) due to enrollment declines. If approved, a tuition rate increase at UAF may lessen revenue decrease. Other unrestricted earned revenue, such as interest income, some university receipts, and indirect cost recovery (generated from restricted funds) are expected to increase slightly ($1.4 million).

The modest $8.0 million state funding request for FY23 and the projected $2.1 million decreases from other unrestricted fund sources means UA will have only $5.9 million to cover $11.1 million in fixed cost increases common across the system plus any additional university specific operating cost increases. UA will need to continue to identify additional efficiencies across the system to fund operating cost increases. The proposed FY23 systemwide operating cost increases are the following:

- Compensation $4.7m
- Information Technology Operations $1.0m
- Insurance Premiums $2.0m
- Facilities Maintenance $3.4m

**Compensation $4,700.0**

In accordance with the University of Alaska’s (UA) mission, UA is committed to providing a competitive total compensation package, including salary and benefits, that will attract, retain, and reward high-performing employees who share a passion for higher education. UA strives to make employee compensation performance-
based, competitive to institutions with similar missions, and commensurate with the individual’s level of responsibility.

The effects of UA’s severe budget reductions over the last several years have impacted the ability to fund ongoing increases to the compensation and benefits package. In the past five years, except for a market adjustment in FY20, there has only been one across the board increase of 1% for employees.

The compensation estimate includes a 2% average salary adjustment for all non-union staff and union-represented firefighters, as their contract terms include an increase if staff receive an increase.

A new student salary grid will be implemented to: remove duplicative salary steps, establish a $1.00 salary difference between the two levels, and establish a 2% step difference in both schedules. These changes are intended to stabilize the structure and allow for future adjustments to be more easily applied, such as increases in the minimum wage. The estimated cost of this change is $110K - $130K.

The UNAC (expires on 12/31/21), UNAD (expires 2/28/22) and Local 6070 (expires 06/30/22) contracts expire in FY22 and no increase has yet been negotiated for FY23. No request will be included in the budget until a collective bargaining agreement (CBA) has been negotiated and ratified by the union. Once a CBA has been approved a request for funding will be made through the appropriate legislative process.

Information Technology (IT) Operations $1,000.0
To maintain reliable, stable and well-functioning Information Technology systems, base level functionality continually needs to be improved upon. Such improvements are critical for the University to deliver on its academic and research missions, and allow it to remain competitive as the technology environment evolves. The University is moving its Enterprise Resource Planning (ERP) system to the cloud. This effort will reduce the risk associated with operating in-house hardware systems and increase the University’s capabilities in terms of systems availability, agility, disaster recovery and business continuity. In addition, improvements to cybersecurity capabilities are necessary to meet the ever-increasing risk and cost caused by security breaches. Insurance carriers and third-parties are increasingly requiring the deployment of best in class cybersecurity systems in order to do business with the University.

Insurance Premiums $2,000.0
Property insurance premiums have doubled, due to an exceptionally hard insurance market. Other insurance coverages, such as cybersecurity coverage, have also seen significant increases. The University continues to take steps to mitigate insurance cost increases, however a certain base level of insurance is important to cover the cost of potential losses due to unforeseen events. The rising cost of insurance is a national issue. Funding maintenance for base level fixed costs is critical as the University seeks to preserve scarce resources for the academic mission.

Facilities Maintenance $3,440.0
Annual state funded capital appropriations for UA’s deferred maintenance/renewal & repurposing (DM/R&R) activities averaged $31 million from FY07-FY15 and dropped to an average of $3 million annually from FY16-FY22. In addition to capital appropriations, UA dedicates a portion of its annual operating appropriation toward facilities maintenance ($25.6 million in FY22). In FY17, UA implemented a multi-year plan to incrementally increase the annual funding to reach a goal of $60.0 million. This increment will help close the $34.4 million funding gap in ten years.

Budget Adjustments
The FY23 Mental Health Trust (MHT) and Technical Vocational Education Program (TVEP) funding changes are unknown at this time and will be added to the budget request when known. Any funding changes will be included in the budget the board is asked to approve in June.
Mental Health Trust Authority $TBD
This funding will be directed toward the University of Alaska projects and programs in support of initiatives of mutual interest to the Trust, the University and the Alaska Health Workforce Coalition. Changes to FY23 Mental Health Trust funding is expected in the Governor’s Budget.

Technical Vocational Education Program $TBD
This funding, commonly referred to as workforce development, is focused on priority workforce development areas established by the Alaska Workforce Investment Board (AWIB). Changes to FY23 Technical Vocational Education Program (TVEP) funding is expected in the Governor’s Budget.