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UNIVERSITY of ALASKA
Many Traditions One Alaska

Budget
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October 29, 2013

Amanda Ryder
Senior Fiscal Analyst/Operating Budget
Alaska Legislative Finance Division
P.O. Box 113200
Juneau, AK 99811-3200

Dear Ms. Ryder:
Included below is the University of Alaska’s actions in regard to the FY2014 enacted legislative intent.

**UNIVERSITY OF ALASKA**

**Operating Budget (CCS HB 65)**

*“It is the intent of the legislature that the University of Alaska submits a FY2015 budget in which requests for unrestricted general fund increments do not exceed the amount of additional University Receipts requested for that year. It is the intent of the legislature that future budget requests of the University of Alaska for unrestricted general funds move toward a long-term goal of 125 percent of actual University Receipts for the most recently closed fiscal year.”*

The University of Alaska believes the purpose of the intent language was to 1) stabilize the general fund level; 2) incent generation of non-general fund revenue; and 3) inform Regents of the true budget constraints that will exist in the future as they negotiate salaries and enter into other financial commitments.

The University of Alaska's FY15 budget request reflects the legislature's intent. The University continues in its 3rd year focus of holding incremental expense increases down, reducing the tuition burden on students and families, leveraging only highly selected programs that represent inter-campus cooperation, internally reallocating programmatic baseline dollars, and placing primary incremental requests, only when absolutely necessary, on student progress and attainment.

The University continues its systemwide look for cost savings and efficiencies as well as cost containment measures. Some examples include wide scale program reviews and program prioritization, space utilization and reallocating, department reorganizations, expansion of energy efficient technology, increased sustainability efforts, increased partnership opportunities with K-12 and public entities and private industries, licensing reductions through renegotiation of contracts, implementation of new electronic processes, and expanded use of video conferencing in lieu of travel. These efforts have successfully provided offsets in the millions of dollars to the increases in pay, benefits, and healthcare.

Educational affordability for students continues to be a top priority which goes entirely against the ratio guidance. Last year the tuition increase (2%) was the smallest at UA in over a decade and was very well received by students, parents, donors, and legislators alike. This year, the tuition increase ranges only 2% to 4%. This low rate of tuition increase will maintain Alaska among the lowest in the 15 western states.

UA has created revenue enhancement opportunities through the UAA and UAF Offices of Intellectual Property and Commercialization, which may generate solid revenue over the long term. UA has also expanded its business partnerships with other entities to offer technical courses resulting in profitable tuition and fee revenue. Admission fees are being re-evaluated and increased such as the out-of-state admission fee at the UA Museum of the North.

The University of Alaska continues to collect evidence confirming that the ratio model did not anticipate the current downward pressure on budgets at the same time the upward pressure on salaries and benefits continued. As a result, we are seeing some unintended consequences. There is a disincentive to outsource services, even if the service could be provided at a reduced cost because it would result in a reduction in university receipts. Also, the University would need to reconsider its offerings of the more expensive high demand programs like engineering, nursing and business because these programs generate less tuition revenue due to the need to have smaller classes to meet strict accreditation limits and lab constraints. These programs also cost more to deliver because of costly equipment and the need for higher faculty wages. The current ratio funding approach also doesn’t credit the millions of highly competitive federal grant dollars the University competes for with several thousand colleges and universities across the U.S., which in turn are leveraged at a 5.6/1 ratio across the Alaska economy. These outside revenue dollars are the result of carefully contrived and managed outcomes and would not materialize in the Alaskan economy without significant effort from UA talent to bring them in to the state.

The University of Alaska will continue to work with legislative finance to examine funding models used by other states to see what has worked and hasn’t worked to develop the best model.

**UNIVERSITY OF ALASKA**

**Operating Budget (CCS HB 65)**

*"It is the intent of the legislature that the University of Alaska submits a Fiscal Year 2015 budget that includes a debt service allocation or an effective alternative to achieve that goal."*

The University of Alaska believes the goal of the debt service intent language is to provide the Legislature a reporting framework that breaks out debt service. The following alternative offers an effective method to achieve this goal.

UA debt service is paid from the operating funds of the allocation which incurred the debt obligation. Historically only actual (not budgeted) debt service amounts have been recorded in expenditure line 78000 (Miscellaneous). In UA's FY2014 Management Plan, UA totaled up the budgeted amount for debt service, by allocation, in expenditure line 78000. By using expenditure line 78000 exclusively for debt service activity, total debt service expenditures can be clearly identified.

However, redirecting debt service (actual expenditures and budgets) to a separate allocation would present a dichotomy in that debt service would be reported in a separate allocation while other expenses, e.g. contractual services, would be associated with and reported in the respective entity allocation, e.g. Anchorage campus. In addition, it would create additional administrative complexity to establish a unique reporting framework that is in contrast to how transactions are actually recorded.

Please let me know if you have any questions regarding the information provided.

Sincerely,
Michelle Rizk