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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