UNIVERSITY OF ALASKA FAIRBANKS

To: UAF Faculty

From: Susan Henrichs

Subject: Budget Challenges for FY 14 and Beyond

Date: February 12, 2013

As you may have seen in the Fairbanks Daily News-Miner, or heard about in campus meetings, FY14 is likely to bring some significant financial challenges to UAF. I will provide more information later in this memo, but the result is that we will need to implement changes. It is my responsibility as Provost to balance revenue and expenditures within my reporting units, and I share that responsibility with deans and directors. Everyone will need to limit administrative costs and pare discretionary expenditures, but in many cases changes to faculty workloads will need to be part of balancing the budget as well. For most of the units reporting to the Provost, tuition is by far the most important source of non-general fund revenue and instruction is the largest expense, and so these areas offer the greatest opportunities to address budget deficits.

Examples of changes that will affect most units include:

- Inability to refill some vacated faculty positions, which will lead to some faculty being assigned additional teaching.
- Insufficient funds to hire as many adjuncts as previously, also leading to some regular faculty having a greater teaching assignment.
- A need to use opportunities to increase revenue through additional sections or on-line instruction.
- A need to increase teaching workload and decrease research workload for faculty members who have a record of lower productivity in research.
- A need to avoid teaching courses with very low enrollments, if possible.
- Increased use of directed study (vs. the standard lecture format) for classes with very small enrollments.

In many cases the main alternative to these actions, cancelling courses, would be unsatisfactory. An immediate consequence is that fewer courses and sections taught would mean lower tuition revenue and a worsening budget gap. In the longer run, fewer courses taught would slow students' progress toward graduation.

I am not imposing across-the-board rules because the schools and colleges differ greatly from one another. I recognize that for some units funded research is more important than tuition as a revenue source, and those units will need to focus more on maintaining research strength than on instructional programs. Other units are focused on public or university service and will need to make changes suited to their missions. However, I do expect deans and faculty to implement the adjustments that will be most effective for their units.

If you are not familiar with the budget issues, here is a quick summary:

- The legislature funds (at most) only 50% of salary and benefit cost increases. UA is expected to reduce faculty/staff or other expenses, or to increase its net revenue, to cover the remainder of those costs.
- The legislature does not fund most other fixed costs increases, with partial exceptions for energy costs and operating costs of new buildings. In recent years many fixed costs increases, such as library materials, other goods and services, and travel, have not been covered by corresponding increases in the state appropriation.
- Altogether, up to $4-5 million of operating cost increases for FY14 will not be covered by State funds.

Legislative funding to the university has been governed by these standards for several years, but FY14 will be different because:

- The Board of Regents decided to limit the tuition rate increase for FY 14 to 2%, because of concerns that increasing tuition rates are limiting access to education. UAF's tuition and fee revenue is about $42M/year; of that about $40 M is tuition revenue. So, roughly, *if* enrollment is flat, UAF will realize only $800,000 in added tuition revenue.
- Because of Federal deficit reduction efforts, available research funding will probably decrease, although it is not certain how much. So, in the short run, UAF is not likely to be able to increase this revenue source. Note that only about 25% of research revenue is unrestricted (the indirect cost recovery) and the ICR is distributed mainly to research institutes, SFOS, the VCAS (to support facilities and administrative services), and Statewide. For schools and colleges outside of SFOS, ICR is not a significant source of revenue[1].

UAF's unrestricted operating budget is about $290M per year, and operating cost increases that will probably not be covered by the state amount to about 1.5% of that. While that does not sound too bad, keep in mind that tuition revenue increases (due mainly to rate increases of 5 to 10%) have covered most of this shortfall in recent years, augmented by ARRA research funding in FY 10-12. Without those funding increments, FY14 is likely to be the most difficult year financially in the past 15 years. Further, the next several years are unlikely to bring either larger tuition increases or much more research funding. If the expected trends continue, UAF could have a >10% effective funding cut by 2018.

There have been many budget discussions over the past several years, and usually one suggestion is, "We should increase revenue." While UAF has directed considerable effort to that, in recruiting and retaining students, supporting research, improving fundraising, and developing intellectual property, the gains so far do not offset the rate of fixed cost increases. However, these efforts must continue.

A second category of suggestions is to "Cut administration, or anything but academic programs." All of the Vice Chancellors, not just the Provost, have shortfalls to deal with in FY14, and they will be making cuts in programs and services. I am responsible for the budget of the academic units. I (and the deans and directors who report to me) need to manage the funds that we are allocated. We do not have authority over other areas. I will continue to advocate for funding for academic programs, but at the end of the year the deans, directors and I are still responsible balancing the budgets of academic units. On a related topic, running up deficits and expecting them to be covered centrally is not an option. For

[1] ICR is an important revenue source for INE, which is within CEM, but there is limited financial transfer between those two units.

the reasons cited there are unlikely to be central reserves of funds, and deficit spending cannot be permitted.

The third type of suggestion is "Make a vertical cut and eliminate programs or units." Such cuts are difficult and take time (especially if tenured faculty and currently enrolled students are involved), but may need to be considered, especially if the financial situation worsens. Keep in mind that it's not possible to save millions of dollars solely by ending marginal programs. Even programs that we consider to be a normal size are not that costly. As an example, take a department with four faculty members, ½ of an administrative assistant, forty undergraduate majors who take an average of 30 credits each year, no core curriculum responsibilities, and no grants. The student tuition revenue is about $220,000, the total cost of the faculty (if junior) and admin is about $400,000, and so eliminating the department yields funds of $180,000 (if the students left when the major was eliminated). To save just $1M by program elimination, it would take more than five such programs (or 2.5, if the students stayed on in a different major).

In circumstances such as these, it's understandable that faculty think that they are being singled out in requirements for added productivity. That is not the case; Chancellor Rogers is instituting program review for all administrative and service units as well as for academic units. In particular, he has pledged to do everything possible to reduce administrative costs. Please keep in mind that, even with the new financial challenges in FY14, UAF is better off than many institutions in the Lower 48. UAF's financial situation is serious but not intractable. I believe that by making some strategic changes, we can live within our means and continue to improve our instructional, research, and service programs.

I welcome your constructive input on how to work within UAF's financial constraints while maintaining and improving upon UAF's many strengths. Please feel free to e-mail me at smhenrichs@alaska.edu. Also, I will be visiting as many units as possible during the remainder of spring semester to offer you opportunities to make suggestions and air concerns.