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DATE May 14, 2013
 TO Deans and Directors
 CC Chancellor's Cabinet
 FROM Pat Pitney, Vice Chancellor for Administrative Services
 RE FY14 UAF Budget Distribution and Management Guidance

I'd like to provide additional guidance for UAF's FY14 budget planning process. In addition to this communication, an open forum to discuss this topic is scheduled for Thursday, May 16 at 11:30 a.m. in the Wood Center Ballroom.

As the chancellor noted in his April 29 email, the Alaska Legislature recently passed the state operating and capital budgets for FY14. While our state funding is as good as can be expected given the overarching state budget picture and the Governor's strategy to "hold-the line" on state spending, UAF will need to make adjustments for this coming fiscal year.

UAF is a large, complex organization and our budget is as well. The root of our budget challenge, however, is fairly simple. Generally, less than 40 percent of our yearly revenue comes from the state, while the rest comes primarily from research funding, tuition and auxiliary service fees. Each year, our fixed costs increase. Additional state appropriations (General Fund) cover some of UAF's FY14 increased costs; however, other revenue sources, including research funding, tuition and fees, have not been increasing at the pace required to meet our current expense pattern. Thus, UAF will face significant budget pressure for the fiscal year beginning July 1, 2013 that must be actively managed. Without managed change, UAF's budgeted cost increase exceeds projected revenue by \$8.5M in FY14, shown in the table below.

Increasing Expense		Increasing Revenue	
\$7.4	Compensation	Compensation (GF)	\$3.7
\$2.4	Murie Operating	Murie Operating (GF)	\$2.3
\$0.6	Programs	Programs (GF)	\$0.6
\$2.5	Utilities	Tuition	\$0.8
\$3.2	Debt Service	Federal/ICR	\$0.5
\$1.5	Other Obligations	Other Revenue	\$1.2
\$17.6	Expense	Revenue	\$9.1
Budget Gap		\$8.5	Million

In past years, UAF has addressed the budget gap by forcing across-the-board budget reductions. This type of reduction, however, is less strategic in nature. This year, in an effort to continue UAF's momentum on priority programs in alignment with UAF's Strategic Plan and UA's Strategic Direction Initiatives, a different approach is being proposed. Instead of imposing a university-wide department pullback, the following actions will address the budget gap:

1. Delay employee hires for 90 days to maximize vacancy savings (\$3.0M)
2. Reduce off-campus lease obligations (\$0.3M)
3. Reduce expenses through energy management (\$0.5M)
4. Identify specific reductions to programs and services (\$1.5-1.9M)
5. Utilize staff benefit rate reductions (\$3.0M)
6. Manage year-end and central reserves (\$1.2-1.7M)

Budget conditions will be similar in FY15 and FY16, and this strategy is better suited to effect long-term systemic changes that help align our operations to the anticipated fiscal environment. The following section provides additional detail on each of the six mechanisms proposed to address the budget gap.

1. Delay employee hires for 90 days to maximize vacancy savings (\$3.0M)

This provision applies a 90-day wait on rehiring regular or term staff and executive positions funded with unrestricted, recharge, and auxiliary funds that are vacated on or after May 15, 2013. Faculty positions are exempted from this provision. Staff and executives being replaced or hired on restricted funds are also exempted and every effort should be made to expedite hires funded by grants and contracts.

The personnel savings that result from the first 60 days of staff vacancies will be collected centrally to meet the debt and utilities shortfall. If a vacancy is refilled through an internal hire, only 45 days of salary savings will be collected centrally from the initial position and 45 days from the position vacated by the internal hire (\$2.0M). Salary savings on the remaining 30 days will be collected for use at vice chancellor/provost level (\$1.0M). Appeals to replace a position prior to the 90-day vacancy requirement can be made in writing to Chancellor's Cabinet through the respective vice chancellor.

Vacancy savings provide only one-time savings. To achieve on-going savings, some of the positions vacated during the year must be eliminated. After the mandatory 90 day wait period, each vice chancellor/provost is being asked to provide scrutiny on rehiring in an attempt to reduce FY15 positions and base salary costs. Each vice chancellor/provost is also being asked to scrutinize supervisory rehires to assure positions have an appropriate number of direct reports. An appropriate span of control for a supervisor generally ranges from 6-15 employees.

Position funding source changes will also be monitored. The UAF Office of Management and Budget will provide units with reports noting staff funding shifts from restricted to

unrestricted funding. Rationale for significant personnel costs shifts will be requested from the vice chancellor level.

2. Reduce off-campus lease obligations (\$0.3M)

Opening the Murie Building this summer allows for backfill into the Bunnell and Eielson buildings, creating on-campus space for Marketing and Communications. Additionally, the Geophysical Institute and Human Resources have made space adjustments in the Elvey Building to accommodate the Alaska Sea Grant Program. With these moves, UAF will end the lease in the Wells Fargo Building, an annual savings of \$0.3M. We continue to look for additional opportunities for space consolidation and off-campus lease savings. Additionally, to understand and quantify Fairbanks on-campus space inventory and utilization, a comprehensive review is schedule to begin in late May 2013 and continue through May 2014.

3. Reduce expenses through energy management (\$0.5M)

In FY13, UAF implemented several energy savings projects on the Fairbanks, Kuskokwim and Chukchi campuses. FY14 energy savings is expected to be in the range of \$0.5M, which will help alleviate the expected \$2.5M utility cost increase. UAF will continue its energy audits and develop another group of buildings for energy retrofits that will further reduce energy consumption, including a project on street lighting. Energy savings from efforts in FY14 and FY15 should reduce cost increases by an additional \$0.5M annually starting in FY15 or FY16. Please encourage your units to conserve electricity, from simple solutions, turning off computers and lights and reducing the number of personal refrigerators, to more complex solutions like consolidating servers to limit cooling requirements.

4. Identify specific reductions to programs and services (\$1.5 to 1.9M)

Each vice chancellor/provost has been given a savings target to reduce base expenses through major reorganization, consolidations or program/service elimination. Relative to unrestricted budgets, administration has been asked to reach a proportionally higher target.

Reductions Target as a % of Unrestricted Revenue	
Chancellor	1.5 to 2.0%
VCAS/FS	1.5 to 2.5%
OIT	1.0 to 1.5%
Provost	0.5 to .75%
VC Research	.75 to 1.5%
VC USA	1.0 to 2.0%
VC RCNE	0.5 to 1.0%
Savings Required	\$1.5M to \$1.9M

Each vice chancellor will provide the chancellor with specific amounts and details of their planned actions to meet these targets by June 30, 2013. It is expected that not all savings

will be realized in FY14. Therefore, reserves and unit level unreserved fund balances (UFB) will be required to manage through FY14. Units will be allowed to retain a higher UFB than in previous years to help manage through FY14. However, deans and directors will be held accountable for the accuracy of their projections using the April month-end management reports. Assuming accurate projections, unit UFB will be returned to the generating unit.

5. Apply staff benefit savings related to health care changes (\$3.0M)

The staff benefits rate is a percentage charge on salaries to cover benefits such as leave, workers' compensation, healthcare, and retirement. The average UA FY14 staff benefit rate will be lower than originally budgeted and very slightly below last year's level. This is primarily due to the changes implemented in the health plan last year. A portion of the savings (\$1M) will be allocated to the fixed cost increases shown above. The remaining \$2M is the difference between the originally budgeted increases (\$7.4M) and what the actual increase will be after applying the lower staff benefit rate. Thus, reducing the amount of additional new non-general revenue needed to cover it. In prior fiscal years SW has required the general fund portion of these savings to be held centrally for future distribution. Given the budget pressure UAF is facing, UAF is able to use the general fund savings on its fixed cost increases. These savings only provide a one-time relief as it is anticipated the staff benefit rates will increase in FY15.

6. Manage year-end and central reserves (\$1.2M to 1.7M)

As a prudent management practice, UAF carries central reserves to address unforeseen costs. Given the circumstances anticipated in FY14, until the full savings of the vacancy management and vertical cuts take effect, central reserves will be carefully managed to help fill the budget gap. The more structural base savings achieved through the other mechanism above, the more likely central reserves will remain adequate and future year across the board pullbacks will be limited.

As we work through the implementation of these proposed actions, I expect there will be many questions specific to individual units. Please direct unit-specific questions to Associate Vice Chancellor for Financial Services Raaj Kurapati.

I look forward to seeing many of you at this week's open forum for further discussion.