Budget Overview

Contact Kelly Thorngren, Budget Director, with any questions 786-4636
Describing the State’s current budget situation is pretty simple really....

89% of the State’s unrestricted general fund revenue relies on oil related revenue (Petroleum Taxes and Royalties)

Oil Production is Declining over time...

Oil Prices are Plunging quickly...

Source: http://www.tax.alaska.gov/programs/oil/prevailing/ans.aspx

State operating revenue drops by $3 Billion when the price of oil drops from $110/barrel to $50/barrel

Source: Anchorage Chamber of Commerce presentation by State Budget Director Pat Pitney, Dec. 2014

(That’s a lot when you consider the unrestricted operating budget totals $6-7B)
The Current Level of State Spending is Not Sustainable, Reserves are Being Used Up by Annual Deficits

<table>
<thead>
<tr>
<th>Depletion of Savings Accounts</th>
<th>FY14</th>
<th>FY15</th>
<th>FY16</th>
<th>FY17</th>
<th>FY18</th>
<th>FY19</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fall 2014 Revenue Forecast ($ millions)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>General Fund Revenues</td>
<td>$5,394</td>
<td>$2,573</td>
<td>$2,197</td>
<td>$3,657</td>
<td>$4,292</td>
<td>$4,808</td>
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<tr>
<td>General Fund Expenses</td>
<td>$7,053</td>
<td>$6,106</td>
<td>$5,684</td>
<td>$5,600</td>
<td>$5,600</td>
<td>$5,600</td>
</tr>
<tr>
<td>PROJECTED DEFICIT</td>
<td>$(1,659)</td>
<td>$(3,533)</td>
<td>$(3,487)</td>
<td>$(1,943)</td>
<td>$(1,308)</td>
<td>$(792)</td>
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<tr>
<td>CBRF Main Account, Balance End of Year</td>
<td>$6,058</td>
<td>$2,622</td>
<td>$2,935</td>
<td>$2,389</td>
<td>$1,831</td>
<td>$3,095</td>
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<tr>
<td></td>
<td>$6,722</td>
<td>$6,968</td>
<td>$3,545</td>
<td>$2,426</td>
<td>$1,884</td>
<td>$-</td>
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<tr>
<td>CBRF Subaccount, Balance End of Year</td>
<td>$12,780</td>
<td>$9,590</td>
<td>$6,480</td>
<td>$4,815</td>
<td>$3,715</td>
<td>$3,095</td>
</tr>
<tr>
<td>CBRF Total</td>
<td>$4,711</td>
<td>$3,052</td>
<td>$-</td>
<td>$-</td>
<td>$-</td>
<td>$-</td>
</tr>
<tr>
<td>Statutory Budget Reserve, Beg Balance</td>
<td>$3,052</td>
<td>$-</td>
<td>$-</td>
<td>$-</td>
<td>$-</td>
<td>$-</td>
</tr>
<tr>
<td>Statutory Budget Reserve, Ending Balance</td>
<td>$3,052</td>
<td>$-</td>
<td>$-</td>
<td>$-</td>
<td>$-</td>
<td>$-</td>
</tr>
<tr>
<td>TOTAL REMAINING RESERVES</td>
<td>$15,832</td>
<td>$9,590</td>
<td>$6,480</td>
<td>$4,815</td>
<td>$3,715</td>
<td>$3,095</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>FY20</th>
<th>FY21</th>
<th>FY22</th>
<th>FY23</th>
<th>FY24</th>
<th>FY25</th>
</tr>
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<tr>
<td>General Fund Revenues</td>
<td>$4,853</td>
<td>$4,628</td>
<td>$4,556</td>
<td>$4,548</td>
<td>$4,473</td>
<td>$4,297</td>
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<td>General Fund Expenses</td>
<td>$5,600</td>
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<td>PROJECTED DEFICIT</td>
<td>$(747)</td>
<td>$(972)</td>
<td>$(1,044)</td>
<td>$(1,052)</td>
<td>$(1,127)</td>
<td>$(1,303)</td>
</tr>
<tr>
<td>CBRF Main Account, Balance End of Year</td>
<td>$2,432</td>
<td>$1,532</td>
<td>$538</td>
<td>$(438)</td>
<td>$(1,565)</td>
<td>$(2,868)</td>
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Source: Anchorage Chamber of Commerce presentation by State Budget Director Pat Pitney, Dec. 2014

(For further analysis on a sustainable level of State spending, see ISER/Scott Goldsmith’s Maximum Sustainable Yield Web Notes at http://www.iser.uaa.alaska.edu/Publications/webnote/2013_01_03-WebNote14-FY2014MSYupdate.pdf)
Reserves Projection at $50 oil

Source: Pat Pitney, director State of Alaska Office of Management and Budget, presentation to UA BOR in March, 2015
So, Why Does UAA Care About the State Budget Crisis? How Big a Part of the State is UA?

UFY is the 3rd largest of 18 Depts in UGF

FY2015 Management Plan - UGF

- Dept of Education and Early Development: 31%
- Dept of Health and Social Services: 28%
- University of Alaska: 8%

Source: State OMB 11-20-14

UFY is THE largest of 18 Depts in # Positions

FY2015 Management Plan - Positions

- University of Alaska, 4934
- Dept of Transportation/Public Facilities, 3806
- Dept of Health and Social Services, 3661
- Dept of Corrections, 1871
- Dept of Fish and Game, 1683

UGF: Unrestricted General Fund

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UGF: Unrestricted General Fund
What is the % of funding we receive from the State? Why just look at Unrestricted Revenue?

<table>
<thead>
<tr>
<th>Revenue Activity</th>
<th>FY14 UAA MAU (in thousands)</th>
<th>% of Total</th>
<th>FY14 Anch Campus</th>
<th>% of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unrestricted</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>General Funds</td>
<td>135,790</td>
<td>45%</td>
<td>115,031</td>
<td>44%</td>
</tr>
<tr>
<td>Net Tuition/Fees</td>
<td>72,415</td>
<td>24%</td>
<td>60,352</td>
<td>23%</td>
</tr>
<tr>
<td>Interdepartment Revenue</td>
<td>10,093</td>
<td>3%</td>
<td>9,800</td>
<td>4%</td>
</tr>
<tr>
<td>University Receipts</td>
<td>8,496</td>
<td>3%</td>
<td>6,684</td>
<td>3%</td>
</tr>
<tr>
<td>TVEP &amp; Mental Health Tr</td>
<td>3,597</td>
<td>1%</td>
<td>3,058</td>
<td>1%</td>
</tr>
<tr>
<td>Indirect Cost Recovery</td>
<td>3,203</td>
<td>1%</td>
<td>2,943</td>
<td>1%</td>
</tr>
<tr>
<td>CIP Receipts</td>
<td>1,878</td>
<td>1%</td>
<td>1,878</td>
<td>1%</td>
</tr>
<tr>
<td><strong>Total Unrestricted</strong></td>
<td>235,472</td>
<td>78%</td>
<td>199,746</td>
<td>76%</td>
</tr>
<tr>
<td>Restricted (Grants &amp; Contracts)</td>
<td>44,685</td>
<td>15%</td>
<td>40,764</td>
<td>16%</td>
</tr>
<tr>
<td>Auxiliary (Business Enterprises)</td>
<td>21,577</td>
<td>7%</td>
<td>20,430</td>
<td>8%</td>
</tr>
<tr>
<td>Designated (Scholars/Lnd Grnt)</td>
<td>1,987</td>
<td>1%</td>
<td>1,987</td>
<td>1%</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>303,721</td>
<td>100%</td>
<td>262,926</td>
<td>100%</td>
</tr>
</tbody>
</table>

Restricted, Auxiliary, Designated earn their own revenue to cover increased costs

Interdepartment Revenue e.g.: charges by one UAA department to another, such as telephone services, printing.
University Receipts e.g.: foundation, sales, testing fees, workshop fees, misc revenue.
CIP Receipts: Construction in Process entry to account in fund one for personnel costs from capital projects.

Source: UAA internal FY14 S Report
How Does Unrestricted Expense Affect Budgets at the Anchorage Campus

<table>
<thead>
<tr>
<th>FY14 Expense Type</th>
<th>Actual (000's)</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personnel</td>
<td>147,250.9</td>
<td>74%</td>
</tr>
<tr>
<td>Travel</td>
<td>4,573.0</td>
<td>2%</td>
</tr>
<tr>
<td>Contract. Services</td>
<td>33,996.8</td>
<td>17%</td>
</tr>
<tr>
<td>Commodities</td>
<td>9,964.0</td>
<td>5%</td>
</tr>
<tr>
<td>Equipment</td>
<td>1,689.6</td>
<td>1%</td>
</tr>
<tr>
<td>Misc</td>
<td>487.1</td>
<td>1%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>197,961.4</strong></td>
<td></td>
</tr>
</tbody>
</table>

Source: S Report Anchorage Allocation

91% Majority of UAA Anchorage Campus expense sits in Personnel and Contractual Services

Personnel: Each year the largest budget expense we need to cover with new revenue is 50% of personnel salary rate and benefit increases (the State usually pays for the other 50%)

Contractual Services: Utility $5M, custodial $1M, phone $1M, Network connectivity $1M, facilities rental $3M, Software license/maint. $2M, Prof. Services contracts $5M
Of our two major revenue sources, we already know State general fund is declining, how’s Tuition doing?

- Tuition is also experiencing challenges due to a dip in Alaska student demographics and other factors like lower tuition rate increases...

Source: Table created from Ak Population Projections 2017 from AK Dept of Labor and Workforce Dev, Research and Analysis Section

Source: UA Approved Operating and Capital Budget (Yellow Book) (2011, 2015) Tuition Rate History, Appendix B, lower division rates
Annual University Budget Gaps

• In the university budget world you have to earn enough revenue to pay your expenses. If your revenue sources go down (as with a cut to general fund by the State or a downturn in enrollments) or expenses go up (as they do annually due to salary rate increases), then you have three basic options to balance your budget gap:

  – Decrease expense
  – Increase revenue
    • Of course we like this one better and exert a great deal of effort each year pursuing more students, more State funding, etc...
  – Or, distribute a general fund cut to all budget units to balance the budget gap
    • UAA has distributed across-the-board cuts to General Fund in 7 of the last 10 years (usually 1 to 2% each year) $15.8M
    • In two of those years only Administrative depts were cut
FY15 Budget Status
FY15: Largest State cut since 1987

- **UA General Fund**
  - $371M
  - 5% State Cut: $17M

- **UAA General Fund**
  - $135M
  - 5% State Cut: $6.2M

- **Anchorage Campus**
  - 5% State Cut: $5.3M

- **Your Dept**

**Community Campuses** Manage 5% Budget Cut
FY15 Anchorage Campus Budget Gap $7.5M

- Total Expenses –($4,348.3)
  - $3,321.9 Salary Rate/Benefit Increases
  - +$1,759.7 Staff Benefit Rate Decreases
  - $2,000.0 Cover FY14 Budget Shortfall
  - $786.1 Cabinet and PBAC distributions

- Total Revenue $2,170.8
  - +527.6 Tuition Revenue
  - +$1,643.2 50% of Wage Compensation from State

- Total Cut from the State -(5,322.5)
  - ($4,970.7) State Decrement 5%
  - ($351.8) State (legislature) cut to Travel

- –($4,348.3) + $2,170.8 - (5,322.5) = -($7,500.0)
• In the short run, UAA chose to distribute the cut to general fund temporarily to balance the budget shortfall for FY15
  – Distributed a temporary decrement to general fund to all units across-the-board (ATB)
    • Temporary because we were awaiting the results of program prioritization to better inform our mission focus
  – Many units covered the cut with carryforward funds (excess, unspent budget) in FY15 temporarily, while planning for the permanent distribution in FY16
The Future: FY16
In FY16 budget planning we make our best estimate about certain factors

• Some unknowns do not become clear until March, April, May, June:
  – Tuition rate increases (BOR approved 5% in March)
  – Staff benefit rate increases (March/April)
  – How much funding will the State cut or provide? (A,M,J)
  – Will enrollments increase or decrease? (Spring, Fall)
  – What internal programs require investment? (PBAC Mar/Apr)
  – What will the utility rates be? (Spring)
  – What new reporting requirements will be imposed? (A,M,J)
  – What will we cover temporarily? Cut centrally?
We’re waiting now to find out how much the House and Senate will Cut our General Fund

- The Governor has already recommended an $18.2M cut to UA unrestricted operating general fund, about 5%
  - If you add back in the funding the State is GIVING us for personnel compensation, then the net decrease is $9.3M or -2.5%

- The House Finance recommended an additional cut of $16.4M

- The Senate Finance University subcommittee reduced the House cut by $5M
  - If we add the $18.2M and $11.4M together = $29.6M (8%)
    - UAA portion is $9.5M
  - If you add back in the $ we are receiving, $20M (5%)

- FY16 Anchorage Campus Budget Gap
  - $9.5M State cut, plus $4M fixed cost increases = $13.5M
  - FY15 Gap of $7.5M plus FY16 Gap of $13.5M = $21M shortfall
We have a long way to go...

Operating Budget Approvals
- House Finance University Subcommittee (late-February)
- House Finance (mid-March)
- House Floor (mid-March)
- Senate Finance (late-March)
- Senate Floor (early-April)
- Conference Committee (mid-to-late-April)
- Governor’s Veto (May)
- UA Distribution

And a short time to get there...

- We need to be planning now so we can implement any changes in how we do business by the start of the new fiscal year.
- Academic units are already implementing elements of their budget plan, such as course schedules for Fall 2015.
- We will need to base our planning on a possible range of cuts the State might land on.
- We can cover some amount of cut temporarily using personnel measures such as furlough, so not every permanent decision has to start July 1.
- Program Prioritization is launching several efforts to review efficiencies, changes in how we do business (IT, GERs, etc..)
Your Input is Valuable

• Visit this site to provide your ideas on how we can meet the budget challenge
  – http://www.uaa.alaska.edu/budgetideas

• You can find on-going budget updates on the Chancellor’s website:
  – http://www.uaa.alaska.edu/chancellor/

• And information on PBAC website:
  – http://www.uaa.alaska.edu/pbac/
Questions