


August 15, 2009

To: Faculty Senate
From: Carol Griffin 
Subject: Response to Report to the Senate, 3 April, 2009

First, I want to thank you for the invitation to meet with the Faculty Senate this past April. My staff, Barbara Hyde and Julie Vigil, and I want to express our appreciation for the courtesy afforded us, as well as the very interesting questions and comments.

At that meeting I promised two things: more budget information available for faculty regarding the different unit budgets and a response to the Mark Speece's question on the "percent of total expenditures of *all funds* on instruction" over time.

I have identified documents that will provide information to you about UAS' budget, and insight into the preparation and administration of the budget. I have categorized them into general budget information and specific unit budget information.

A. General Budget Information

- Statewide Budget Guidelines/assumptions for FY11 budget request
- UAS budget assumptions for FY10 operating budget development
- System wide distribution of FY10 funds approved by BOR

B. Specific Unit Budget Information

- FY 09 operating budget by school, org, and major account
- BOR approved distribution to UAS by each of the three campuses

These documents, or links to these documents can be found at:

http://www.uas.alaska.edu/vicechancellor/budget/budget_info.html

As always, the Budget Office will send you a hard copy upon request.

Next, I want to thank Professor Speece for taking the time to read our annual publication of expenditures and revenues. Preparation for this publication takes more than a month of staff time each year, and provides invaluable information to the intended users of this report. It is a complex book that documents numbers and trends, and while there are brief notes regarding annual changes, it does not include a significant narrative to explain variances or the evolution of actual expenditures and revenues.

Before I get into the more specific responses to the issue raised by Professor Speece, it is important that we have a common definition and understanding of the following:

- A. Fund Types
- B. Program Classification
- C. Budget vs. actual expenditures/revenues

After these clarifications, I will respond to the observation that between 2004 and 2008 there was decline in the "percent of total of all funds" (section 1, page 12 of the October 2008 – UAS Operating Review) spent on instruction.

A. Fund Types

Funds are established to ensure accountability and expenditures for designated purposes. Revenues must be raised and expended in accordance with special regulations and restrictions. Budgets are adopted and recorded in the accounts of the related fund.

Unrestricted Funds: Often referred to as general funds (legislative appropriation and tuition and fees), unrestricted funds are used to account for and analyze revenue and expenses generated from the operations, the university's core services such as instruction, research, public service, general administration, and student services.

Auxiliary Funds: Are used to account for and analyze revenue and expenses generated from the enterprise operations of the university.

Restricted Funds: Most commonly referred to as grants, are funds that have been allocated for a specific purpose or scope of work, are provided by an agency external to UAS, and require reporting and predetermined outcomes. Scholarships, student aid and loans are also contained in this fund group.

Designated Funds: Designated funds form part of the unrestricted funds of charities which have been earmarked, by the trustees, for a specific purpose.

B. Program Classification

These codes identify activities aimed at achieving specific objectives of the organizational units in which the activities were performed. Use of the program classification structure permits financial reporting of activity costs across organizational lines. There are nine program classification codes, and numerous subclassifications. The major program classifications as defined by the National Center for Higher Education Management Systems (NCHEMS) are: Instruction, Research, Public Service, Academic Support, Student Services, Institutional Administration, Physical Plant Operations, Student Financial Support, and Independent Operations.

Here is an abbreviated NCHEM description for each:

Instruction: Includes expenditures for all activities that are part of the University's instruction program. Expenses for credit and noncredit courses; academic, vocational, and technical instruction; remedial and tutorial instruction; and regular, special, and extension sessions should be included.

Research: Includes all expenditures for activities specifically organized to produce research, whether commissioned by an agency external to the institution or separately budgeted by an organizational unit within the institution. Subject to these conditions, the category includes expenses for individual and/or project research as well as that of institutes and research centers. This category does not include all sponsored programs nor is it necessarily limited to sponsored research, since internally supported research programs, if separately budgeted, may be included in this category.

Public Service: Includes expenses for activities established primarily to provide non instructional services beneficial to individuals and groups external to the institution. These activities include community service programs (excluding instructional activities) and cooperative extension services. Included in this category are conferences, institutes (other than research), general advisory services, reference bureaus, radio and television, consulting, and similar non-instructional services to particular sectors of the community.

Academic Support: Includes expenses incurred to provide support services for the institution's primary missions: instruction, research, and public service. It includes the retention, preservation, and display of educational materials, such as libraries, museums, and galleries; the provision of services that directly assist the academic functions of the institution, such as demonstration schools associated with a department, school, or college of education; media such as audio-visual services and technology such as computing support; academic administration (including academic deans but not department chairpersons) and personnel development providing administration support and management direction to the three primary missions; and separately budgeted support for course and curriculum development. For institutions that currently charge some of the expenses--for example, computing support--directly to the various operating units of the institution, this category does not reflect such expenses.

Student Services: Student services programs include those activities carried out with the objective of contributing to the emotional and physical well-being of the students, as well as to their intellect, cultural and social development outside the context of the institution's formal instruction program.

Institutional Administration: Houses the costs of those activities that provide the short and long-range viability of the university. The overall objective is to provide for the institutional effectiveness and continuity. It does this by providing planning and executive direction, administrative and logistical services, enhancing relationships with the institution's constituencies, providing services for conveniences of employees of the institution, and recruiting and admitting students to the educational program.

Physical Plant Operations: Facilities Services costs consist of those activities related to maintaining existing grounds and facilities, providing utility services, and planning and designing future plant expansions and modifications.

Student Financial Aid: Includes only the financial assistance provided to students in the form of outright grants, trainee stipends, and prizes (scholarships) awarded by and/or administered through the institution. Includes tuition and fee waivers.

Auxiliary Operations: Classifies costs that are independent of or unrelated to the primary missions of the institution. Includes operations that are owned or controlled by the institution as investments,

C. Budget vs. Actual Expenditures/Revenues

Prior to the end of the current operating fiscal year, each Dean/Director develops their unrestricted "operating" budget for the coming fiscal year. The budget is based on the assumptions referred to earlier in my response with a link for the documents, legislative appropriations, unit variances, program changes, personnel changes and other changes that may be unique or specific to a department.

Unrestricted school budgets are capped at their estimated ability to fund their expenditure plan based on the combination of earned revenue and state appropriation, which is the “given” within each school. The amount of State Appropriation differs within each school for a variety of reasons, a few of which are: historical budgets that have increased over time based on legislative funding of fixed costs, newly funded program initiatives, performance awards (math faculty for FY10), and base reallocations that arise out of changing need and are determined by the executive cabinet (Chancellor, Provost, Vice Chancellor for Administrative Services and, Vice Chancellor for Student Services) with input from the Provost’s council.

Tuition and student fees are the most common earned revenue source. All fees assessed by a school are assigned to that school at 100%. Tuition is prorated back to the schools at 75% of what is actually earned (not budgeted). Schools also share in the revenue from indirect cost recovery of the grants associated with their school, and university generated revenue for workshops and other agency trainings. There may be other miscellaneous sources of revenue not identified here.

Each school must balance what is decided they need to spend in the year against what they propose they can earn in a year. A sample budget could look like this:

Salaries and benefits	\$100.0 (thousands)
Travel	20.0
Contractual Services	30.0
Commodities	40.0
Equipment	<u>10.0</u>
<i>Total Expenditure Budget</i>	<i>\$200.0</i>
State Appropriation	\$140.0 (thousands)
Tuition	56.0
Student fees	<u>4.0</u>
<i>Total Revenue Budget</i>	<i>\$200.0</i>

In this budget scenario, the maximum this unit can spend is \$200.0. However, in order to spend full, it must earn the tuition and fees to equal \$150.0.

However, if during implementation of the budget year, the reality budget is, State Appropriation (\$140.0), the student fees fully earned (\$4.0), but only \$20.0 of the \$56.0 tuition budget is earned, then this unit can only spend \$164.0. In the final analysis, expenditures cannot exceed the general fund plus actual earned revenue.

Response

I offer the following in response to the issue raised in Professor Speece’s white paper about the “*declining percent of all funds expended at UAS on Instruction from 2004 -2008,*” I must agree that his conclusion is accurate. That on the chart from page 12 of the 2008 Fall Operating Review the percentage went from 42.2% to 36.2%.

Given the context of the previous information on definition of types of funds, program classifications and budget versus actual expenditure/revenues there are numerous factors that might explain such changes. In this case the most important factors are volume and timing of restricted fund activity, legislative funding of new initiatives, and increases in funding of maintenance and repair of facilities. The tables discussed throughout Professor Speece’s paper detail actual expenditures made by a unit, and revenues earned, not authorized budgets for those units. The tables also refer to revenue that is a combination of *all funding*

types (unrestricted, restricted, auxiliary, recharge), and *all revenue sources*— state appropriation, tuition, grant and contracts, student fees, etc.

The most significant cause of the decline in percent of total expenditures in instruction, which is not visible from this same chart, is the decrease in *grant revenue* primarily generated by the School of Education. Education Grants, or restricted funds, while not a steady source of income, have been subject to quick and healthy infusions of earmark funds (SEED and Gatherings) on the Juneau Campus, both of which were restricted for program instruction, which resulted in higher expenditures in *instruction*. The net result of all these actions is a 59% (\$2,368.9M) decrease of restricted expenditure in instruction in from FY04 to FY08.

At this same time, other NCHEM designations such as student services and research began to more actively seek extramural funding with increases in student services (restricted funds) at 420% and support for research growing by 104.6% from \$892.9 to \$1,818.2 between FY04 and FY08 that further changed the % of total expenditure in instruction.

The unrestricted Institutional Support NCHEM category in Juneau has increased 72.2% over the five year period between FY04 and FY08. Approximately 25% of this increase is due to reclassification of the provost function from Academic Support during Fiscal Year 2007 to re-align the Provost's Office as part of Institutional Support at the direction of Statewide Institutional Research.

The Physical Plant Operations NCHEM category, referred to in the Operating Review as Facilities Services, is required by the Board of Regents to budget and expend a minimum of 1.5% of the value of all buildings for maintenance and repair each year. Between FY04 and FY08, that increase equaled \$432.0, or a 35% increase over the five years. During this period of time we not only acquired new facilities but received and expended funds on behalf of the National Guard for their contribution toward the cost of operating the Joint Use Facility, which opened in 2005.

I'm sure that it is obvious to you that if expenditures in one NCHEM category within the organization grows, including faculty research, there will be other categories that may decline in percent of the total— unless they grow at the same or higher level. Another issue to keep in mind when reviewing the attached chart from the 2008 Operating Review is to look at the actual expenditures prior to drawing conclusions from the percent of change over time.

If my staff or I can meet with you in the future or provide additional information, please do not hesitate to contact us. Finally, at the end of October we will be finishing the FY09 Operating Review Trend book, and Barbara Hyde, Julie Vigil, and I would be willing to make a presentation of this information at Faculty Senate after October 27, 2009.