Arizona Board of Regents **A.R.S. § 15-1621**

Executive Director: Joel Sideman JLBC Analyst: Shelli Carol

	FY 2005 Actual	FY 2006 Estimate	FY 2007 Approved
OPERATING BUDGET			
Full Time Equivalent Positions	27.9	27.9	27.9
Personal Services	1,460,000	1,526,000	1,583,900
Employee Related Expenditures	317,100	422,200	462,000
Professional and Outside Services	63,400	63,400	63,400
Travel - In State	200	0	0
Other Operating Expenditures	292,600	212,700	212,700
OPERATING SUBTOTAL	**2,133,300**	**2,224,300**	**2,322,000**
SPECIAL LINE ITEMS			
Arizona Teachers Incentive Program	90,000	90,000	90,000
Arizona Transfer Articulation Support System	213,700	213,700	213,700
Nursing Education	0	1,434,500	1,434,500[1/]
Student Financial Assistance	2,161,200	2,161,200	7,161,200[2/]
Western Interstate Commission Office	105,000	108,000	112,000
WICHE Student Subsidies	2,871,100	2,903,100	3,570,700
AGENCY TOTAL	**7,574,300**	**9,134,800**	**14,904,100**[3/4/5/]
FUND SOURCES			
General Fund	7,574,300	9,134,800	14,904,100
SUBTOTAL - Appropriated Funds	**7,574,300**	**9,134,800**	**14,904,100**
Other Non-Appropriated Funds	6,376,300	5,804,300	4,266,700
Federal Funds	828,300	1,154,900	629,500
TOTAL - ALL SOURCES	14,778,900	16,094,000	19,800,300

AGENCY DESCRIPTION — Article 11 of the Arizona Constitution creates the Arizona Board of Regents (ABOR). ABOR governs the 3 state institutions comprising the Arizona University System: Arizona State University (ASU), Northern Arizona University (NAU), and the University of Arizona (UA). The board is legally, fiscally, and strategically responsible for the state universities.

1/ Includes $1,434,500 appropriated by Laws 2005, Chapter 330 for the Arizona Partnership for Nursing Education Demonstration Project. Chapter 330 assigns ABOR the authority to distribute the amount among the universities. In FY 2006, ABOR distributed $812,300 to ASU, $171,200 to NAU, and $451,000 to UA. This appropriation continues through FY 2010.

2/ Laws 2006, Chapter 350 appropriation of $5,000,000.

3/ General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.

4/ Within 10 days of the acceptance of the universities' semiannual all funds budget reports, the Arizona Board of Regents shall submit an expenditure plan to the Joint Legislative Budget Committee for its review. The expenditure plan shall include any tuition revenue amounts that are greater than the appropriated amounts and all retained tuition and fee revenue expenditures for the current fiscal year. The additional revenue expenditure plan shall provide as much detail as the university budget requests. (General Appropriation Act footnote)

5/ The Arizona Board of Regents shall report to the Joint Legislative Budget Committee by August 31, 2006 on its plan for establishing, pursuant to A.R.S. § 15-1626, a differentiated tuition and fee rate structure for students who have earned credit hours in excess of the credit hour threshold. (General Appropriation Act footnote)

PERFORMANCE MEASURES (Systemwide)	FY 2003 Actual	FY 2004 Actual	FY 2005 Actual	FY 2007 Approved
• % of graduating seniors who rate their overall university experience as "good"/"excellent"	95	95	95	95
Comments: The percentage of graduating seniors who rate their overall university experience as "good" or "excellent" derives from over 8,800 responses. By gathering the impressions of only graduating seniors, this measure overlooks the potentially negative opinions of students who chose to transfer or who otherwise left the universities.				
• % of full-time undergraduate students enrolled per semester in 3 or more primary courses with ranked faculty	78	74	74	77
Comments: Ranked faculty includes all instructors with the exception of unpaid volunteers and graduate students. Therefore, this measure does not address undergraduate student contact with professors.				
• % of full-time undergraduate students enrolled per semester in 3 or more primary courses with professors of any rank	--	--	--	60
Comments: The budget provides a new performance measure to specifically ascertain undergraduate student contact with professors. Professors of some rank taught 51% of all university system undergraduate primary class sections in FY 2005, compared to 47% nationally in FY 2004.				
• Average number of years taken to graduate for students who began as freshmen	4.7	4.7	4.7	4.7
Comments: To reduce freshmen's average number of years to graduation, the universities are employing various strategies including adding class sections, reducing section sizes, increasing student advising, library, and financial aid resources, and standardizing general education requirements.				

Operating Budget

The budget provides $2,322,000 from the General Fund for the operating budget in FY 2007. This amount includes an increase of $97,700 from the General Fund for statewide adjustments. *(Please see the Statewide Adjustments section at the end of this Appropriations Report for details.)*

Special Line Items

Arizona Teachers Incentive Program
The budget provides $90,000 from the General Fund for the Arizona Teachers Incentive Program (ATIP) in FY 2007. This amount is unchanged from FY 2006.

Laws 1990, Chapter 340 mandated that ABOR establish and administer a loan program for students of deaf and blind education at the UA College of Education. Students may earn forgiveness for their loans by teaching in an Arizona deaf and blind program for a time equal to their period of loan support. In FY 2006, ATIP distributed $50,000 in loans between 10 students, as well as $40,000 to the UA College of Education for deaf and blind instructional resources.

Arizona Transfer Articulation Support System
The budget provides $213,700 from the General Fund for the Arizona Transfer Articulation Support System (ATASS) in FY 2007. This amount is unchanged from FY 2006.

A.R.S. § 15-1824 establishes ATASS as a joint initiative, among the public community colleges and universities, to facilitate efficient transfer of course curricula and credits. ATASS is also developing a shared statewide student and financial information database. The community college districts overall contributed $190,000 to the system in FY 2005, as well as $226,100 in FY 2006. Their projected contribution for FY 2007 is $239,900.

Nursing Education
The budget provides $1,434,500 from the General Fund for the Arizona Partnership for Nursing Education Demonstration Project (APNEDP) in FY 2007. This amount is unchanged from FY 2006. These monies do not appear in the FY 2007 General Appropriation Act because Laws 2005, Chapter 330, Section 16 appropriated them in advance.

Chapter 330 established the goal of doubling the state's annual nursing graduates between FY 2005 and FY 2010, while improving the geographic placement, diversity, and efficiency of nurses around the state. The session law directs the state's higher education institutions to use this funding for additional qualified nursing faculty hires and for teaching resources in nursing degree programs, but not for capital expenses.

Chapter 330 advance appropriated a total of $4 million annually through FY 2010 for APNEDP. The session law allocated the monies between ABOR and the Department of Commerce based upon the respective numbers of university and community college nursing graduates in FY 2005.

Chapter 330 also directed ABOR and the Department of Commerce to distribute their shares of the appropriation among the state universities and community colleges, respectively. In FY 2006, ABOR distributed $812,300 to ASU, $171,200 to NAU, and $451,000 to UA.

Student Financial Assistance
The budget provides $7,161,200 from the General Fund for Student Financial Assistance in FY 2007.

AFAT Deposit
The State Government Budget Reconciliation Bill (Laws 2006, Chapter 350) provides an increase of $5,000,000 from the General Fund in FY 2007 for the Arizona Financial Aid Trust (AFAT).

Pursuant to A.R.S. § 15-1642, monies in this line item match financial aid tuition surcharges collected from university students. The FY 2005 appropriation for Student Financial Assistance matched each student dollar with 47.6 cents. Chapter 350 amends statute to require future matching of each student dollar with $2 from the General Fund.

The AFAT fee is 1% of the full-time resident undergraduate tuition rate, or around $42 in FY 2006. All students pay roughly the same fee, except part-time students, who pay half the regular fee.

Previously, AFAT retained half of all annual receipts as a permanent financial aid endowment. Chapter 350 amends statute so that AFAT will retain 25% of future receipts for the endowment. ABOR distributes the remaining monies, proportionally to each university's respective contribution, to provide immediate assistance for needy or minority in-state students. In FY 2005, AFAT disbursed $3.8 million in financial aid. *(Please see Table 6 for a summary of FY 2005 financial aid distributions from all sources.)*

Western Interstate Commission Office
The budget provides $112,000 from the General Fund for the Western Interstate Commission Office in FY 2007.

Fee Increase
The budget provides an increase of $4,000 from the General Fund in FY 2007 for an administrative fee increase.

Monies in this line item pay the state's share of administrative expenditures for the Western Interstate Commission on Higher Education (WICHE), in accordance with A.R.S. § 15-1742. The WICHE central office sets the administrative fee.

WICHE Student Subsidies
The budget provides $3,570,700 from the General Fund for WICHE Student Subsidies in FY 2007.

Student Subsidy Increase
The budget provides an increase of $667,600 from the General Fund in FY 2007 to subsidize 32 additional students in the WICHE program, bringing the total number of subsidized students to 183. Depending on the program of study, WICHE subsidy amounts will range between $9,400 and $26,500 in FY 2007, reflecting increases between $200 and $1,900.

Monies in this line item provide subsidies to Arizona students participating in the WICHE Professional Student Exchange Program (PSEP). Since the Arizona University System does not offer programs in dentistry, optometry, occupational therapy, osteopathy, physician assistance, or veterinary medicine, PSEP allows interested students to enroll in these programs at private in-state institutions or other public western universities.

The recommended amount would fairly evenly increase the number of subsidies available in all programs. However, the number of occupational therapy subsidies would not increase. In FY 2006, the board provided subsidies to 151 Arizona students, compared to 158 in FY 2005 and 179 in FY 2002.

Among WICHE states, Arizona exports the most students. Of the 151 FY 2006 participants, 111 attend out-of-state schools, while 38 attend private institutions within Arizona.

Participating students receive admissions preference and subsidized tuition. A.R.S. § 15-1745 requires graduates to practice 1 year in Arizona, or 6 months in an under-served Arizona community, for each year of WICHE support. Participants who fail to meet their service requirements must repay 50% of their subsidies, plus interest.

The WICHE central office determines subsidy amounts for each program through negotiations with participating institutions. As rough guidance, WICHE subsidies are intended to cover the difference between resident and non-resident tuition at a public university or approximately half the private university tuition rate.

Additional Legislation

Higher Education Budget Reconciliation Bill
The Higher Education Budget Reconciliation Bill (Laws 2006, Chapter 352) includes several provisions affecting the state universities, including, but not limited to, the following:

Credit Hour Threshold
The Higher Education Budget Reconciliation Bill of 2005 stated the Legislature would not appropriate monies to support, and ABOR could differentiate tuition paid by, university students who have exceeded a credit hour threshold. *(The budget includes a footnote requiring ABOR to report its differentiation plan to the Joint Legislative Budget Committee [JLBC] by August 31, 2006.)* The 2005 bill also set the threshold at 155 hours in FY 2007, 150 hours in FY 2008, and 145 hours from FY 2009.

The Higher Education Budget Reconciliation Bill of 2006 removes the reference to the Legislature and directs ABOR not to include funding for such students in its annual budget request. The bill also exempts the following kinds of credits:

- Credits earned in degree programs requiring additional credits, including graduate degrees.
- Credits earned pursuing up to 2 baccalaureate degrees, up to 2 state licenses or certificates, and teaching certificates.
- Credits earned after a hiatus of 2 years or greater from the state's higher education systems.
- Credits transferred from private and out-of-state institutions.
- Credits not accepted for transfer.

Indirect Debt Financing
Laws 2006, Chapter 352 requires ABOR to receive review by the Joint Committee on Capital Review (JCCR) for any projects using indirect debt financing. Indirect debt financing includes instances where a tax-exempt non-profit organization affiliated with a university executes bonds or lease-purchase agreements, as well as instances where a private developer executes bonds or lease-purchase agreements, for capital projects on university land and/or intended to house university activities. Chapter 352 does not require any private entity to divulge proprietary information to JCCR during review.

Although the state universities do not directly pay debt service for this financing, credit agencies take indirect financing into account when determining a university's credit rating. Credit agencies weigh each financed amount by the executor's involvement with a university. Ties can include universities' leasing land to the executor, mandating use of a project, and guaranteeing debt service payments on behalf of the executor.

Annual Financial Aid Report
In December 2005, JLBC Staff and the Governor's Office of Strategic Planning and Budgeting (OSPB) jointly released a Strategic Program Area Review of University Financial Assistance. Among its observations, JLBC Staff recommended expanding ABOR financial aid reporting requirements.

Chapter 352 requires ABOR to report to the Governor, legislative leadership, and JLBC annually by December 1 with financial aid information from the 2 prior fiscal years. The report must contain information for each university, summary information, and a comparison to peer institutions.

The report must also provide detail for resident undergraduate and resident graduate students, including a breakdown of student costs and student financial resources. ABOR and JLBC Staff will jointly determine the report's methodology and format.

Enrollment Audit
The Higher Education Budget Reconciliation Bill of 2005 required the Auditor General to audit annual university enrollments, in a manner similar to community college enrollment auditing. The Higher Education Budget Reconciliation Bill of 2006 clarifies the timing of these audits and allows ABOR to recommend the elimination or revision of certain aspects of the audit process.

Alumni Associations
Laws 2006, Chapter 352 prohibits the universities from using any tuition or student fee revenues to support their alumni associations.

Table 1 displays the estimated FY 2006 alumni association budgets by university and fund source.

Table 1
Alumni Association Budgets ($ in M)

	N-A Tuition	Other N-A Funds	Total
ASU	1.4	2.3	3.7
NAU	0.6	0.0	0.6
UA	1.1	0.6	1.7
Total	**3.1**	**2.9**	**6.0**

Clinical Rotations
The Higher Education Budget Reconciliation Bill of 2005 directed medical schools in the state against restricting their associated hospitals from offering clinical rotations to any qualified medical student. The Higher Education Budget Reconciliation Bill of 2006 places this provision in permanent law.

Enrollment Count
Laws 2006, Chapter 352 requires ABOR to report to JLBC and OSPB, by December 1, 2006 and April 15, 2007, enrollment comparisons between the 21st and 45th days of the fall and spring semesters. The reports should delineate individual grade levels. Currently, universities count credit hours on the 21st day of the semester, while community colleges count on the 45th day.

Downtown Phoenix Campus
ASU is establishing a new campus in downtown Phoenix, which will initially house the College of Public Programs and departments from the College of Nursing, University

College, and the School of Global Health. Chapter 352 requires ABOR to submit for JLBC review, by October 1, 2006, detailed operational and capital plans for the Downtown Phoenix Campus. *(For more information, please see the ASU - Main section.)*

Joint Study Committee on Medical School Education
The Higher Education Budget Reconciliation Bill of 2005 established the Joint Study Committee on Medical School Education with the broad directive of evaluating statewide needs for medical education and reporting by December 1, 2005. The 2005 bill also disbanded the study committee on January 15, 2006.

The Higher Education Budget Reconciliation Bill of 2006 re-establishes the Joint Study Committee on Medical School Education with a narrower mandate. The Committee will evaluate how special health districts, clinical facilities, and medical training organizations impact statewide medical needs. The Committee will also review the availability of residency programs and clinical rotations for medical students. The Committee will report its findings by December 1, 2006.

Employment Opening Public Notices
Laws 2006, Chapter 352 requires all state public higher education institutions to publicly post notices, with relevant details, for all employment openings in FY 2007.

University System Summary Tables

Table 2 and *Table 3* summarize FY 2007 expenditure authority for the Arizona University System. *Table 4* shows tuition and fee changes for FY 2007. Each March, ABOR sets tuition rates for the following academic year. ABOR estimates that the planned increases from *Table 4* will generate $42.4 million in new tuition revenue, as displayed in *Table 2*.

Table 5 displays total tuition collections for the Arizona University System, an estimated $678 million in FY 2006. Since the FY 2007 amounts derive from the universities' FY 2007 budget requests, this table does not account for the FY 2007 tuition changes displayed in *Table 4*.

The universities annually project their expenditure needs for financial aid, facilities (plant fund), debt service, and the operating budget. A.R.S. § 15-1626 authorizes ABOR to then allocate collections between the appropriated operating budgets, under legislative control, and non-appropriated funds, locally retained by the universities. In FY 2006, ABOR allocated approximately $390 million to appropriated operating budgets and $288 million to non-appropriated funds.

Table 6 shows the financial aid distribution and the sources of aid for the Arizona University System in FY 2005. Of $887.3 million total financial aid distributions in FY 2005, the state appropriated $1.3 million and university institutional sources provided $320.1 million.

Table 2

FY 2007 Summary of Spending Authority

		Appropriated Funds			Non-Appropriated Funds		
	Enrollment (FTE)[1/]	**General Fund**	**Collections Fund[2/3/]**	**Tech & Research Fund (TRIF)**	**Federal Funds**	**Other Funds[3/]**	**Total**
ABOR	--	$ 14,904,100	$ 0	$ 0	$ 629,500	$ 4,266,700	$ 19,800,300
ASU-Main	47,471	343,963,300	204,742,800	0	156,108,900	445,154,100	1,149,969,100
ASU-East	2,972	19,804,700	14,620,400	2,000,000	3,523,200	8,226,300	48,174,600
ASU-West	6,287	48,752,000	19,337,600	1,600,000	2,476,800	12,173,000	84,339,400
ASU-DA [4/]	--	10,600,000	0	0	0	0	10,600,000
NAU	16,693	135,949,400	39,544,000	0	48,384,600	118,421,800	342,299,800
UA-Main	32,448	315,223,100	108,378,100	0	251,110,100	510,685,600	1,185,396,900
UA-Health Sciences	1,745	68,473,500	15,513,600	0	113,290,100	76,414,700	273,691,900
UA-DA [4/]	--	6,200,000	0	0	0	0	6,200,000
Subtotal	**107,616**	**$ 963,870,100**	**$ 402,136,500**	**$ 3,600,000**	**$ 575,523,200**	**$ 1,175,342,200**	**$ 3,120,472,000**
New Tuition Revenue [5/]							*42,400,000*
Total							**$ 3,162,872,000**

1/ Enrollment here represents student populations as calculated by the part-statutory, part-conventional student enrollment funding formula, less FY 2006 students who have earned credit hours in excess of the 155 credit hour threshold.
2/ Since enrollment growth also contributes to an increase in university tuition and fee collections, the Collections Fund amounts reflect these additional revenues.
3/ The amounts do not account for the FY 2007 tuition changes displayed in *Table 4*.
4/ The FY 2007 General Appropriation Act appropriates discretionary adjustments to each university as a whole, without reference to any particular campuses.
5/ Information provided by ABOR, relating to its March 2006 approval of tuition rates for the 2006-2007 academic year. A.R.S. § 15-1626 authorizes ABOR to allocate collections between the appropriated operating budgets, under legislative control, and non-appropriated funds, locally retained by the universities.

Table 3

Summary of Changes to General Fund Budgets ($)

	FY 2006 [1]	Enrollment Growth	155 Hour Reduction	Decision Packages [2]	Discretionary Adjustments [3]	State Gov't BRB [2]	Chapter 1 Salaries [4]	Standard Changes	FY 2007
ABOR	9,134,800	--	--	671,600	--	5,000,000	67,700	30,000	14,904,100
ASU-M	307,911,900	14,193,500	(952,000)	529,000	--	500,000	15,914,600	5,866,300	343,963,300
ASU-E	15,811,700	2,743,600	(49,700)	--	--	--	956,500	342,600	19,804,700
ASU-W	44,844,300	1,453,300	(65,400)	--	--	--	1,862,000	657,800	48,752,000
ASU-DA [3]	--	--	--	--	10,600,000	--	--	--	10,600,000
Subtotal	368,567,900	18,390,400	(1,067,100)	529,000	10,600,000	500,000	18,733,100	6,866,700	423,120,000
NAU	124,506,400	--	(186,000)	--	3,200,000	500,000	4,961,200	2,967,800	135,949,400
UA-M	293,785,200	411,700	(580,500)	2,700,000	--	500,000	13,033,100	5,373,600	315,223,100
UA-HSC	64,261,300	1,033,100	(91,300)	60,000	--	--	2,408,000	802,400	68,473,500
UA-DA [3]	--	--	--	--	6,200,000	--	--	--	6,200,000
Subtotal	358,046,500	1,444,800	(671,800)	2,760,000	6,200,000	500,000	15,441,100	6,176,000	389,896,600
Total	**860,255,600**	**19,835,200**	**(1,924,900)**	**3,960,600**	**20,000,000**	**6,500,000**	**39,203,100**	**16,040,500**	**963,870,100**

1/ The amounts include salaries paid in accordance with Laws 2006, Chapter 1 during FY 2006.
2/ For further detail on individual items, please see the respective university campus section.
3/ The FY 2007 General Appropriation Act appropriates discretionary adjustments to each university as a whole, without reference to any particular campuses.
4/ The amounts represent annual Chapter 1 salary increases, less those amounts already incorporated in FY 2006. *(See footnote #1)*

Table 4

Tuition and Fees ($) [1]

	FY 2006				FY 2007				FY 2006 to FY 2007 Change			
	Resident		Non-Resident		Resident		Non-Resident		Resident		Non-Resident	
	Undergrad	Grad	Undergrad	Grad	Undergrad	Grad	Undergrad	Grad	Undergrad	Grad	Undergrad	Grad
ASU Main	4,404	5,559	15,093[2]	15,823[2]	4,686	6,026	15,846	16,612	282	467	753	789
ASU East & West	4,293	5,508	15,042[2]	15,772[2]	4,444	5,974	15,794	16,560	151	466	752	788
NAU Flagstaff	4,393	4,733	13,023	13,381	4,546	4,898	13,487	13,858	153	165	464	477
NAU Distance Ed	4,231	4,652	12,942	13,300	4,381	4,817	13,406	13,777	150	165	464	477
UA Main & HSC	4,487	4,941	13,671	13,921	4,754	5,440	14,960	15,230	267	499	1,289	1,309
UA Sierra Vista	4,138	4,888	13,618	13,868	4,203	5,385	14,905	15,175	65	497	1,287	1,307

1/ The amounts represent combined full-time tuition for fall and spring semesters, as well as mandatory fees. Undergraduates must take at least 12 credit hours to qualify for full-time status. Graduate full-time status depends upon research and teaching responsibilities. Mandatory fees vary by campus and can include AFAT, health, information technology, library, and recreation charges, but do not include special class or program fees.
2/ The amounts represent ASU tuition rates for non-resident students who began their enrollment in fall 2005 or a subsequent semester. Continuing students enrolled prior to fall 2005 pay $1,082 less than the amounts displayed.

Table 5

Tuition Revenue Allocation

Appropriated	FY 2005 Actual	FY 2006 Estimate	FY 2007 Estimate 1/
Operating Budget	$355,117,600	$390,160,100	$402,136,500 2/
Non-Appropriated			
Operating Budget	25,029,900	27,763,300	31,114,300
Financial Aid	163,717,600	182,867,500	183,067,800
Plant Fund	11,577,300	7,959,800	12,859,800
Debt Service	61,484,800	68,931,700	71,729,100
Total	**$616,927,200**	**$677,682,400**	**$700,907,500**

1/ The source for the non-appropriated amounts is the universities' FY 2007 budget requests. The amounts do not account for the FY 2007 tuition changes displayed in *Table 4*.

2/ Since enrollment growth also contributes to an increase in university tuition and fee collections, the amount reflects these additional revenues.

Table 6

FY 2005 Financial Aid Distribution by Source (in thousands) 1/

	Federal	State 2/	Institutional 3/	Private/Other	Total
Grants	$ 69,568.3	$ 1,026.6	$ 183,347.7	$ 61,147.8	$ 315,090.4
Loans 4/	405,643.5	223.4	0.0	25,166.9	431,033.8
Employment 5/	4,435.8	0.0	136,767.4	0.0	141,203.2
Total	**$ 479,647.6**	**$ 1,250.0**	**$ 320,115.1**	**$ 86,314.7**	**$ 887,327.4**

1/ Information provided by ABOR.

2/ State sources of aid include revenues from the Commission for Postsecondary Education and the Board of Medical Student Loans.

3/ Institutional sources of aid include revenues from: Local Retention, AFAT, the Collegiate License Plate Fund, Foundation funds, and Financial Aid Carry Forward from previous years.

4/ ABOR did not provide a distribution of loans by source. The amounts represent a distribution of the total according to the percentages by source in FY 2004.

5/ ABOR has not provided amounts paid to graduate assistants since FY 2003. Therefore, the Institutional amount includes the graduate assistant pay level from FY 2003.