JLBC Analyst: Leah Kritzer

	FY 2007 Actual	FY 2008 Estimate	FY 2009 Approved
SPECIAL LINE ITEMS			
Operating State Aid			
Cochise	8,349,000	8,401,400	8,303,100
Coconino	3,322,500	3,334,600	3,245,400
Gila	294,800	620,500	713,000
Graham	5,370,400	5,370,400	5,173,200
Maricopa	57,528,300	57,528,300	55,416,100
Mohave	4,196,900	4,196,900	4,063,300
Navajo	4,412,300	4,412,300	4,250,300
Pima	19,593,500	19,593,500	18,874,100
Pinal	6,014,700	6,052,000	5,854,300
Yavapai	4,738,700	4,820,400	4,903,400
Yuma/La Paz	5,657,200	5,722,700	5,512,600
Subtotal - Operating State Aid	119,478,300	120,053,000	116,308,800
Capital Outlay State Aid			
Cochise	1,052,300	1,060,600	0
Coconino	421,300	423,800	0
Gila	65,500	133,400	0
Graham	525,800	510,100	0
Maricopa	11,421,900	11,204,000	0
Mohave	597,500	591,200	0
Navajo	568,900	1,505,700	500,000[1/]
Pima	3,262,900	3,198,900	0
Pinal	3,789,800	797,600	0
Yavapai	678,500	703,900	0
Yuma/La Paz	911,200	924,800	0
Subtotal - Capital Outlay State Aid	23,295,600	21,054,000	500,000
Equalization Aid			
Cochise	3,857,400	4,669,700	5,833,400
Graham	11,504,000	13,146,500	14,775,700
Navajo	3,373,200	4,305,200	5,386,500
Yuma/La Paz	1,278,100	1,372,400	1,931,400
Subtotal - Equalization Aid	20,012,700	23,493,800	27,927,000
Tribal Community Colleges	1,750,000	1,944,000	1,944,000[2/]
Rural County Reimbursement	3,188,000	0	0
Rural County Reimbursement Subsidy	1,000,000	1,200,000	1,000,000[3/]
AGENCY TOTAL	**168,724,600**	**167,744,800**	**147,679,800**[4/]
FUND SOURCES			
General Fund	168,724,600	167,744,800	147,679,800
SUBTOTAL - Appropriated Funds	**168,724,600**	**167,744,800**	**147,679,800**
Other Non-Appropriated Funds	18,520,600	19,294,700	19,677,500
TOTAL - ALL SOURCES	187,245,200	187,039,500	167,357,300

1/ The $500,000 Navajo Community College receives in Capital Outlay State Aid shall be used to construct a public safety and emergency services training facility in Navajo County to be operated and controlled by the Northland Pioneer Community College. The appropriation is exempt from the provisions of A.R.S. § 35-190, relating to the lapsing of appropriations. (General Appropriation Act footnote)

2/ A.R.S. § 42-5031.01 directs the State Treasurer to annually transmit to the tribal colleges 10% of Transaction Privilege Tax revenues collected from sources located on the reservation, or $1,750,000, whichever is less.

3/ Of the $1,000,000 appropriated to the Rural County Reimbursement Subsidy line item, Apache County will receive $466,000, Greenlee County $382,800, and Santa Cruz County $151,200. (General Appropriation Act footnote)

4/ General Appropriation Act funds are appropriated as District-by-District Special Line Items.

AGENCY DESCRIPTION — The Arizona community college system is comprised of 10 college districts and 1 provisional district. Arizona's community colleges provide programs and training in the arts, sciences and humanities, and vocational education leading to an Associates degree, Certificate of Completion, or transfer to a Baccalaureate degree-granting college or university.

PERFORMANCE MEASURES	FY 2005 Actual	FY 2006 Actual	FY 2007 Actual	FY 2009 Approved
• No. of applied Baccalaureate programs collaboratively developed with the universities.	NA	NA	32	34

Operating State Aid

The budget provides $116,308,800 from the General Fund for Operating State Aid in FY 2009. This amount funds the following adjustments:

Enrollment Growth

The budget provides an increase of $689,000 from the General Fund in FY 2009 to fund the statutory formula for Operating State Aid.

Operating State Aid Reduction

The budget provides a decrease of $(4,433,200) from the General Fund for FY 2009 for a lump sum reduction to Operating State Aid. In order to implement this reduction, the Education Budget Reconciliation Bill (BRB) for FY 2009 (Laws 2008, Chapter 287) notwithstands the program's statutory funding formula for FY 2009 and stipulates that its funding instead shall equal the amount appropriated in the General Appropriation Act.

The $(4,433,200) lump sum reduction for Operating State Aid is part of an overall lump sum reduction of $(5,497,700) that is included in the community college budget for FY 2009. The remaining $(1,064,400) is taken from Equalization Aid, as described separately below. The budget allocates the total $(5,497,700) amount between Operating State Aid and Equalization Aid and among the individual community colleges on a pro rata basis relative to what their respective full formula funding amounts would have been for FY 2009 without the reduction.

Background – The Operating State Aid Special Line Items provide each community college district with funds for continuing operating and maintenance expenses pursuant to A.R.S. § 15-1466.

Operating State Aid funding for FY 2009 (apart from the lump sum reduction described above) is based on audited FY 2007 enrollment of 118,308 Full Time Student Equivalent (FTSE), which has declined by (198) FTSE, or (0.2%) from FY 2006. *(See Table 1 for additional FTSE information.)* Despite the decrease in enrollment, there would have been a net increase of $689,000 to fund enrollment growth under the statutory formula in FY 2009. The Operating State Aid formula adjusts state aid in an amount that reflects only growth in the FTSE enrollment count. This enrollment adjustment is calculated by multiplying the increase in the most recent year's actual FTSE for each district by the average state aid per FTSE appropriated in the current fiscal year. *(For FY 2009, the last actual FTSE data was from FY 2007.)*

The formula "holds harmless" districts with declining FTSE enrollment, as the formula does not adjust state aid downward for these districts. The Operating State Aid formula, however, prohibits a district from receiving growth funding unless the district's most recent audited FTSE count exceeds its highest audited FTSE count recorded from and after FY 2004.

Under this formula, district funding is still held harmless against declining enrollment; however, a district with declining enrollment in 1 year will not qualify for growth funding in subsequent years until the district's new enrollment total exceeds its highest enrollment total prior to any decline.

Table 1

Community College Enrollment

District	FY 2006 FTSE	FY 2007 FTSE	Percentage Change
Cochise	6,629	6,844	3.2%
Coconino	2,018	2,052	1.7%
Gila	635	753	18.6%
Graham	2,429	2,401	(1.2%)
Maricopa	70,025	69,561	(0.7%)
Mohave	2,815	2,866	1.8%
Navajo	2,408	2,304	(4.3%)
Pima	19,993	19,807	(0.9%)
Pinal	3,798	3,823	0.7%
Yavapai	3,352	3,618	7.9%
Yuma/La Paz	4,404	4,279	(2.8%)
Total	**118,506**	**118,308**	**(0.2%)**

Capital Outlay State Aid

The budget provides $500,000 from the General Fund for Capital Outlay State Aid in FY 2009. This amount funds the following adjustments:

Rollback Public Safety Training Facility Funding

The budget provides a decrease of $(500,000) from the General Fund to roll back funding for the Northland Pioneer Community College Training Facility in FY 2009.

Navajo Community College received $1,000,000 from the General Fund in FY 2008 to construct a public safety and emergency services training facility in Navajo County, to be operated and controlled by Northland Pioneer Community College. This amount was intended to be continued in FY 2009, pursuant to a footnote in the General Appropriation Act for FY 2008. It is decreased to $500,000, however, for FY 2009.

Suspension of Capital Outlay Formula

The budget provides a decrease of $(20,054,000) from the General Fund in FY 2009 to suspend the capital outlay funding formula. The approved amount includes a $(20,000) decrease below FY 2008 to reflect formula changes and $(20,034,000) to suspend the formula for FY 2009.

Background – The Capital Outline Special Line Items provide the community college districts with funds for capital land, building, and equipment needs pursuant to A.R.S. § 15-1464.

The Capital Outlay State Aid formula provides per capita funding to districts based on the district's size and the most recent years actual audited FTSE. The statutory formula provides $210 per FTSE for districts with 5,000 or less FTSE or $160 per FTSE for districts with greater than 5,000 FTSE. The FY 2009 Education BRB notwithstands the formula for the year and stipulates that its funding instead shall equal the amount appropriated in the General Appropriation Act.

Unlike Operating State Aid, the Capital Outlay State Aid formula does not hold harmless districts with declining FTSE; therefore, a decline in enrollment results in a reduction to Capital Outlay State Aid.

Equalization Aid

The budget provides $27,927,000 from the General Fund for Equalization Aid in FY 2009. This amount funds the following adjustment:

Formula Increase

The budget provides an increase of $5,497,600 from the General Fund in FY 2009 to fund the statutory funding formula for the program.

Equalization Aid Reduction

The budget provides a decrease of $(1,064,400) from the General Fund for FY 2009 for a reduction to Equalization Aid. In order to implement this reduction, the Education Budget Reconciliation Bill for FY 2009 (Laws 2008, Chapter 287) notwithstands the program's statutory funding formula for FY 2009 and stipulates that its funding instead shall equal the amount appropriated in the General Appropriation Act.

The $(1,064,400) lump sum reduction for Equalization Aid is part of an overall lump sum reduction of $(5,497,700) that is included in the community college budget for FY 2009. The remaining $(4,433,200) is taken from Equalization Aid, as described separately above. The budget allocates the total $(5,497,700) amount between Operating State Aid and Equalization Aid and among the individual community colleges on a pro rata basis relative to what their respective full formula funding amounts would have been for FY 2009 without the reduction.

Background – The Equalization Special Line Items provide additional state aid to qualifying community college districts whose tax base is insufficient to provide adequate funding for continuing operations and maintenance pursuant to A.R.S. § 15-1468.

Equalization Aid is paid to community college districts with property tax bases that are less than the minimum assessed value specified in A.R.S. § 15-1402. Under the Equalization Aid formula, the minimum assessed valuation is increased by the average growth in actual assessed valuation for the 2 most recent years for all rural districts with populations of less than 500,000 persons. For the FY 2009 Equalization Aid formula calculation, the minimum assessed valuation increased 16.7% to $1.3 billion. The Education Budget Reconciliation Bill for FY 2009 notwithstands the formula for FY 2009 and appropriates the amount as specified in the General Appropriation Act. *(See Table 2 for the calculation of the growth rate.)*

Equalization Aid is paid out based on the difference between minimum assessed valuation and the most recent actual assessed valuation for the district. Equalization Aid is calculated at the lesser of $1.37 per $100 of the district's assessed valuation or the district's levy rate. *(See Table 2 for a breakdown of Equalization Aid funding for qualifying districts.)*

Table 2
Equalization Growth Factor for Tax Years (TY) 2006-2007

District	TY 2006 Primary AV	TY 2007 Primary AV	TY 2006-2007 % Growth
Cochise*	$ 734,609,600	$ 812,722,300	10.6%
Graham*	115,866,200	135,117,600	16.6%
Navajo*	734,836,700	812,314,300	10.5%
Yuma/LaPaz*	975,290,300	1,108,394,800	13.6%
Coconino	1,367,963,400	1,514,258,100	10.7%
Mohave	1,604,391,600	1,890,688,700	17.8%
Pinal	1,472,159,600	1,908,801,700	29.7%
Yavapai	2,125,710,200	2,470,265,900	16.2%
Total	**$9,130,827,600**	**$10,652,563,400**	**16.7%**

* These districts qualify to receive Equalization Aid under the state funding formula.

Tribal Community Colleges

The budget provides $1,944,000 from the General Fund for Tribal Community Colleges in FY 2009. This amount is unchanged from FY 2008.

The Higher Education Budget Reconciliation Bill (Laws 2007, Chapter 265) allows any qualifying tribal community college to receive $1,750,000, or 10% of the Transaction Privilege Tax revenues collected from sources located on Indian reservations, whichever is less. Chapter 265 repealed the statute that previously limited distribution of these monies to Diné College. As a result, Tohono O'odham College became eligible to receive General Fund monies starting in FY 2008.

The Tribal Community Colleges Special Line Item provides tribal community colleges with funding for maintenance, renewal, and capital expenses. Based on projected collections, Diné College will continue to be capped at $1,750,000 and Tohono O'odham College will receive an estimated $194,000. Actual amounts will depend on FY 2009 collections. Given the language of A.R.S. § 42-5031.01, these monies do not appear in the General Appropriation Act.

Rural County Reimbursement

The Rural County Reimbursement Special Line Item reimburses community college districts for students enrolled from counties that are not a part of an established community college district. The appropriation is funded from the General Fund. Pursuant to A.R.S. § 15-1469.01, the FY 2007 expenditure of $3,188,000 was offset by a corresponding reduction in the counties' sales tax apportionment. The payments made on behalf of the counties are not included in county expenditure limits established in the Arizona Constitution. The FY 2008 and FY 2009 dollar amounts are not yet known. Given the language of A.R.S. § 15-1469.01, these monies do not appear in the General Appropriation Act.

Rural County Reimbursement Subsidy

The budget provides $1,000,000 from the General Fund for Rural County Reimbursement Subsidy in FY 2009. This amount funds the following adjustment:

Subsidy Decrease

The budget provides a decrease of $(200,000) from the General Fund in FY 2009 for a rural county reimbursement subsidy. The subsidy partially reduces the amount that counties are required to pay for rural county reimbursement. Once the subsidy is taken into account, counties are still responsible for paying the remaining reimbursement amount.

This funding partially offsets the cost to counties that are not part of an established community college district. The funding is appropriated to Apache, Greenlee, and Santa Cruz Counties. Of the total $1,000,000 appropriation, Apache receives $466,000, Greenlee $382,800, and Santa Cruz $151,200.

Other Issues

Nursing Education

Laws 2005, Chapter 330 established the Arizona Partnership for Nursing Education Demonstration Project. The purpose of the project is to enhance nursing education programs in Arizona, with the goal of doubling the current number of nursing graduates in the state by FY 2010.

Chapter 330 also established the Nursing Education Demonstration Project Fund. Monies in the fund are allocated to Arizona public universities and community colleges based on a comparison of the number of nursing students graduating in FY 2005 from those institutions. Monies allocated to the universities are administered by the Arizona Board of Regents, while monies allocated to the community colleges are passed through the Department of Commerce.

Chapter 330 annually appropriates $4,000,000 from the General Fund to the Nursing Education Demonstration Project Fund from FY 2006 through FY 2010. Of the total $4,000,000 annual appropriation, $1,368,000 is allocated to the universities and $2,632,000 is allocated to the community colleges. These amounts are based on FY 2005 nursing graduation rates. Total grant amounts are higher than the $2.6 million appropriation in FY 2007 through FY 2009 given the carry forward amounts from previous years.

The community college funds are distributed using a competitive grant process. Three criteria were used to determine funding: the quality of the nursing program, how the program meets the geographic and diverse needs of its community, and the program budget.

In FY 2009, the Department of Commerce plans to distribute a total of $3,039,500 in grants to community colleges. Grant awards declined slightly from FY 2008, due to non-renewals for several colleges. *(Table 3 shows grant distribution amounts.)*

Table 3

Distribution of Nursing Grants

Community College	FY 2007	FY 2008	FY 2009
Chandler/Gilbert	$172,700	$174,200	$ -
Estrella Mountain	159,300	79,600	119,200
Gateway	370,100	383,200	257,700
Glendale College	162,700	292,800	393,500
Phoenix College	214,700	332,500	484,300
Rio Salado College	221,500	351,800	121,100
Scottsdale	370,500	171,500	-
Arizona Western	-	261,300	445,300
Eastern Arizona	310,500	127,600	-
Central Arizona	89,900	257,800	437,000
Coconino	1,500	94,600	107,500
Mohave	160,700	157,900	158,000
Northland Pioneer	174,900	183,000	120,100
Pima	134,900	215,800	-
Yavapai	268,900	401,400	395,800
Total	**$2,812,800**	**$3,485,100**	**$3,039,500**

Community College Revenue Sources

In addition to state General Fund monies, Arizona's community colleges receive revenues from a number of other sources, including student tuition and fees, local property taxes, grants, and other monies generated by the colleges. Of the total, the community colleges receive 11% of their revenues from state aid.

For FY 2008, base operating revenues from all sources are estimated to be approximately $1.5 billion, an increase of 20% from FY 2007. *(See Table 4 for a summary of FY 2008 total revenue estimates.)*

Property taxes are the single largest revenue source for the community colleges, accounting for over 42% of their revenues. There are 2 types of property taxes: primary and secondary. For the community colleges, primary property taxes are levied for operating purposes and secondary property taxes are levied to pay for capital outlay expenses. Each community college district determines its primary and secondary property tax rates.

Table 5

Community College Tax Rates – FY 2008

District	Primary Rate	Secondary Rate	Combined Rate	% Change in Combined Rate from FY 2007
Cochise	$1.74	$0.00	$1.74	(2.8%)
Coconino	0.37	0.11	0.49	(6.4%)
Gila	0.60	0.00	0.60	(3.4%)
Graham	2.00	0.00	2.00	(3.2%)
Maricopa	0.82	0.15	0.98	(7.9%)
Mohave	0.82	0.00	0.82	(8.7%)
Navajo	1.23	0.19	1.42	(4.7%)
Pima	1.02	0.17	1.18	(5.2%)
Pinal	1.80	0.00	1.80	(14.3%)
Yavapai	1.34	0.18	1.52	(8.3%)
Yuma/La Paz	1.74	0.44	2.18	(7.9%)

Combined rates declined for all districts from FY 2007, largely as the result of local property assessed valuation increases. *(See Table 5 for a summary of FY 2008 property tax rates.)*

The community colleges also collect tuition and fees from enrolled students. These collections account for approximately 21% of total revenues. Tuition and fees are assessed on a per credit hour basis. FY 2008 average tuition was $1,770, an increase of 2.7% from FY 2007. Annual tuition costs range from $1,056 at Navajo, to $1,950 at Maricopa. *(See Table 6 for FY 2008 resident tuition and fee rates.)*

Community colleges also receive grants and "other" revenue from a variety of sources. Combined, they account for approximately 26% of community college revenues. Grants traditionally come from the federal government, including: the U.S. Department of Education, Small Business Administration, National Science Foundation, and Health and Human Services. Revenue listed in the "other" category includes auxiliary programs, interest incomes, workforce development funds, and transfers.

Table 4

Total Estimated Community College Revenues – FY 2008

District	State Aid	Tuition/Fees	Property Taxes	Grants	Other 1/	FY 2008 Total 2/	FY 2007 Total 3/	% Change from FY 2007
Cochise	$14,131,700	$6,339,600	$14,098,800	$8,898,600	$3,085,800	$46,554,500	$42,798,600	8.8%
Coconino	3,758,400	5,094,300	7,632,300	4,293,400	1,154,100	21,932,500	20,285,800	8.1%
Gila 4/	753,900	-	2,712,600	35,000	475,000	3,976,500	3,244,200	22.6%
Graham	19,027,000	4,851,800	2,706,800	5,640,000	6,789,300	39,014,900	35,032,200	11.4%
Maricopa	68,732,300	224,134,600	396,885,100	122,818,400	136,595,200	949,165,600	741,860,900	27.9%
Mohave	4,788,100	7,628,700	15,543,400	7,515,900	450,900	35,927,000	27,081,900	32.7%
Navajo	10,223,200	3,550,000	11,615,600	4,635,000	2,325,000	32,348,800	28,626,100	13.0%
Pima	22,792,400	37,572,000	88,537,000	31,688,000	8,437,000	189,026,400	176,860,500	6.9%
Pinal	6,849,600	7,977,000	32,304,300	11,960,000	932,800	60,023,700	57,730,200	4.0%
Yavapai	5,524,300	8,925,300	38,308,800	5,684,200	7,114,600	65,557,200	63,604,500	3.1%
Yuma/La Paz	8,019,900	7,013,100	25,002,100	12,197,200	5,310,200	57,542,500	59,502,900	(3.3%)
Total	**$164,600,800**	**$313,086,400**	**$635,346,800**	**$215,365,700**	**$172,669,900**	**$1,501,069,600**	**$1,256,627,800**	**19.5%**

1/ Includes auxiliary programs, interest incomes, workforce development funds, and transfers.

2/ Total revenues do not include bond proceeds or district fund balances. Including these amounts total revenues are estimated to be $2,054,576,300 for FY 2008.

3/ Total revenues do not include bond proceeds or district fund balances. Including these amounts total revenues are estimated to be $1,663,134,900 for FY 2007.

4/ Gila Provisional Community College contracts with Graham County's Eastern Arizona College (EAC) in order to provide degree programs. Therefore, Gila's tuition and fee revenues are collected by Graham according to their contract agreement.

Table 6
Community College Resident Tuition and Fees – FY 2008

District	Cost Per Credit Hour	Annual Cost [1/]	% Change from FY 2007
Cochise	$49	$1,470	4.3%
Coconino	56	1,690	15.4%
Gila [2/]	-	-	-
Graham	43	1,300	16.1%
Maricopa	65	1,950	0.0%
Mohave	57	1,700	7.6%
Navajo	35	1,056	10.0%
Pima	52	1,565	6.1%
Pinal	53	1,596	12.2%
Yavapai	49	1,470	8.9%
Yuma/La Paz	46	1,380	15.0%
Weighted Average	**$59**	**$1,770**	**2.7%**

1/ Annual cost is for 30 hours a year, or 15 hours per semester.
2/ Gila Provisional Community College contracts with Graham county's Eastern Arizona College (EAC) in order to provide degree programs. Therefore, Gila's tuition and fee amounts are the same as Graham's.

Total Community College Expenditures

Table 7 shows total budgeted FY 2008 community college expenditures. In FY 2008, total budgeted expenditures are approximately $2.1 billion. As mentioned previously, base operating revenues for FY 2008 are $1.5 billion; however, this figure does not include allocated fund balances or bond proceeds. Including these amounts, total available revenues are $2.1 billion. Of the total $2.1 billion in expenditures, $1.2 billion, or 58%, of these expenditures are from the community colleges' general and restricted funds. This includes about $446.3 million, or 22%, for instruction and $225.7 million, or 11%, for administrative support.

Table 7
Community Colleges - FY 2008 Budgeted Expenditures

General/Restricted Funds	Total	% of Total
Instruction	$446,328,700	22%
Public Service	39,445,600	2%
Academic Support	120,797,500	6%
Student Services	171,438,500	8%
Administration	225,694,500	11%
Operation & Maintenance	77,265,900	4%
Scholarships	62,323,500	3%
Contingency	50,038,200	2%
Subtotal	**$1,193,332,400**	58%
Auxiliary Enterprises Fund	$178,716,300	9%
Plant Fund	$567,541,100	28%
Debt Service	$113,582,400	6%
Total	**$2,053,172,200**	

Expenditures for auxiliary enterprises, including revenue generating retail and business services such as parking lots, book stores, and food service, are $178.7 million, or 9% of the total. Plant Fund expenditures, which generally include capital costs, are $567.5 million, or 28% of the total. The remaining $113.6 million is for debt service.