

Arizona Community Colleges

	FY 2013 ACTUAL	FY 2014 ESTIMATE	FY 2015 BASELINE
SPECIAL LINE ITEMS			
Operating State Aid			
Cochise	5,784,600	5,710,100	5,343,400
Coconino	1,847,900	1,840,400	1,775,800
Gila	410,000	370,700	346,300
Graham	2,373,200	2,345,700	2,261,300
Maricopa	8,315,700	7,913,300	7,409,500
Mohave	1,785,600	1,659,400	1,543,300
Navajo	1,689,700	1,646,600	1,618,200
Pima	7,353,500	7,136,600	6,493,500
Pinal	2,107,800	2,135,000	2,023,900
Santa Cruz	63,500	58,700	47,900
Yavapai	957,600	893,900	887,000
Yuma/La Paz	2,802,600	2,754,400	2,726,600
<i>Subtotal - Operating State Aid</i>	35,491,700	34,464,800	32,476,700
STEM and Workforce Programs State Aid			
Cochise	0	450,400	401,800
Coconino	0	147,500	138,700
Gila	0	50,000	46,400
Graham	0	218,100	208,100
Mohave	0	211,700	192,900
Navajo	0	122,600	122,000
Pinal	0	257,700	327,900
Santa Cruz	0	16,700	14,700
Yavapai	0	248,600	260,800
Yuma/La Paz	0	276,700	286,700
<i>Subtotal - STEM and Workforce Programs State Aid</i>	0	2,000,000	2,000,000
Equalization Aid			
Cochise	5,614,700	4,712,400	3,870,500
Graham	16,867,300	16,075,100	15,025,500
Navajo	5,370,100	5,514,200	5,283,300
<i>Subtotal - Equalization Aid</i>	27,852,100	26,301,700	24,179,300
Rural County Allocation	2,990,200	3,268,400	3,268,400
Rural County Reimbursement Subsidy	848,000	848,000	848,000
Tribal Community Colleges	1,750,000	2,625,000	2,625,000
AGENCY TOTAL	68,932,800	69,508,700	65,398,200
FUND SOURCES			
General Fund	68,932,800	69,508,700	65,398,200
SUBTOTAL - Appropriated Funds	68,932,800	69,508,700	65,398,200
Other Non-Appropriated Funds	15,592,900	16,470,400	16,470,400
TOTAL - ALL SOURCES	84,525,700	85,979,100	81,868,600

AGENCY DESCRIPTION — The Arizona community college system is comprised of 10 college districts and 2 provisional districts. Arizona's community colleges provide programs and training in the arts, sciences and humanities, and vocational education leading to an Associate's degree, Certificate of Completion, or transfer to a Baccalaureate degree-granting college or university.

Operating State Aid

The Baseline includes \$32,476,700 from the General Fund in FY 2015 for Operating State Aid. FY 2015 adjustments would be as follows:

FY 2015
Enrollment Growth **GF** **(1,988,100)**

The Baseline includes a decrease of \$(1,988,100) from the General Fund in FY 2015 to fund the statutory formula for Operating State Aid.

This amount funds statutory formula costs for a (7,557), or (5.3%), decrease in Full Time Student Equivalent (FTSE) students in community colleges statewide (see Table 1). The (7,557) net FTSE decrease consists of a (7,894) FTSE decrease in non-dual enrollment students and a 337 FTSE increase in dual enrollment students. A.R.S. § 15-1466.01 requires dual enrollment students be funded at 50% for state aid purposes. Dual enrollment refers to high school students who are enrolled in community college courses for both high school and community college credit.

<u>District</u>	<u>FY 2012</u> <u>FTSE</u>	<u>FY2013</u> <u>FTSE</u>	<u>Percentage</u> <u>Change</u>
Cochise	9,210	7,766	(15.7)%
Coconino	2,355	2,099	(10.9)%
Gila	790	703	(11.0)%
Graham	3,433	3,107	(9.5)%
Maricopa	83,024	81,218	(2.2)%
Mohave	3,450	2,987	(13.4)%
Navajo	2,070	1,962	(5.2)%
Pima	22,028	19,514	(11.4)%
Pinal	5,246	4,822	(8.1)%
Santa Cruz	258	218	(15.5)%
Yavapai	3,974	3,984	0.3%
Yuma/La Paz	<u>5,636</u>	<u>5,537</u>	<u>(1.8)%</u>
Total	141,474	133,917	(5.3)%

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. The Operating State Aid formula adjusts state aid in an amount that reflects changes in the FTSE enrollment count. This enrollment adjustment is calculated by multiplying the change 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 2015, the last actual FTSE data was from FY 2013.)

STEM and Workforce Programs State Aid

The Baseline includes \$2,000,000 from the General Fund in FY 2015 for STEM and Workforce Programs State Aid (formerly Capital Outlay State Aid). This amount is unchanged from FY 2014.

Laws 2013, Chapter 223 replaced state aid for community college capital outlay with aid for Science, Technology, Engineering and Mathematics (STEM) and Workforce Programs. The funding name and allowed uses changed, but the funding formula remains the same.

The Baseline continues to suspend formula funding for STEM and Workforce Programs State Aid for FY 2015, but assumes a continuation of the \$2,000,000 non-formula appropriation for rural community college districts (all districts excluding Maricopa and Pima) from FY 2014. The \$2,000,000 would be distributed to each district proportionally based on a 67.5% reduction to their full formula amounts. The formula funding has been suspended since FY 2009. If fully funded in FY 2015, the formula would provide the districts with \$21,930,500 in state aid.

Background – The STEM and Workforce Programs Special Line Items provide the community college districts with funds for partnerships, faculty, technology equipment, student services, facilities, and property needs pursuant to A.R.S. § 15-1464.

The STEM and Workforce Programs State Aid formula provides per capita funding to districts based on the district’s size and the most recent year’s 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.

Equalization Aid

The Baseline includes \$24,179,300 from the General Fund in FY 2015 for Equalization Aid. FY 2015 adjustments would be as follows:

Property Value Growth **GF** **(2,122,400)**

The Baseline includes a decrease of \$(2,112,400) from the General Fund in FY 2015 to reflect reduced formula costs for funding Equalization Aid due to assessed valuation changes. Detail of specific district changes is shown in Table 2.

<u>District</u>	<u>FY 2014</u>	<u>Year-over-</u> <u>Year Change</u>	<u>FY 2015</u>
Cochise	\$ 4,712,400	\$(841,900)	\$3,870,500
Graham	16,075,100	(1,049,600)	15,025,500
Navajo	<u>5,514,200</u>	<u>(230,900)</u>	<u>5,283,300</u>
Total	\$26,301,700	\$(2,122,400)	\$24,179,300

Background – The Equalization Special Line Items provide additional state aid 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 revised by the average change in actual assessed valuation for the most recent year for all rural districts with populations of less than 500,000 persons. For the FY 2015 Equalization Aid formula calculation, the minimum assessed valuation decreased (6.8)% to \$1.29 billion. (See Table 3 for the calculation of the growth rate.)

Table 3

**Equalization Growth Factor
for Tax Years (TY) 2012-2013**

District	TY 2012 Primary AV	TY 2013 Primary AV	TY 2012- 2013 % Growth
Cochise*	\$1,038,327,100	\$1,006,475,400	(3.1)%
Graham*	208,931,300	192,240,700	(8.0)%
Navajo*	974,292,400	903,351,900	(7.3)%
Coconino	1,747,818,100	1,519,086,300	(13.1)%
Mohave	1,791,765,200	1,771,371,900	(1.1)%
Pinal	2,153,783,700	1,988,882,400	(7.7)%
Yavapai	2,405,473,700	2,232,629,600	(7.2)%
Yuma/LaPaz	1,414,564,000	1,328,950,800	(6.1)%
Total	\$11,734,955,500	\$10,942,989,000	(6.8)%
Minimum AV	\$1,382,299,300	\$1,288,994,100	(6.8)%

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

Equalization Aid is paid based on the difference between the 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.

As noted in Table 3, the average rural district assessed value declined by (6.8)%, in TY 2013. In comparison, Cochise declined by (3.1)%, Graham declined by (8.0)%, and Navajo declined by (7.3)%. By not declining as much as the average districts or by having an assessed valuation that comes closer to the minimum assessed value than in the previous year, Cochise, Graham, and Navajo qualify for less aid in FY 2015 than in FY 2014.

In any one year a district's equalization assistance will depend on 1) whether the district falls below the minimum threshold (\$1.29 billion in FY 2015) and 2) whether the district's change in assessed value was less than the rural districts' average and 3) the applicable tax rate.

Rural County Allocation

The Baseline includes \$3,268,400 from the General Fund in FY 2015 for Rural County Allocation. This amount is unchanged from FY 2014.

Background - The Rural County Allocation Special Line Item facilitates payment to community college districts for students enrolled from counties that are not a part of an established community college district. If a county is not part of a community college district, it is responsible for

the cost of their students attending community college in another county. A.R.S. § 15-1469.01 provides that the General Fund will pay the initial cost for these counties and then the state will withhold these counties' sales tax revenues to offset that cost; therefore there is no net General Fund impact. The FY 2013 expenditure of \$2,990,200 was offset by corresponding reductions 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 county payments are partially offset by a state subsidy. (See next Special Line Item.)

Each year, the amount is determined by enrollment counts submitted to the JLBC Staff. The JLBC Staff is required to report the county withholdings to the Treasurer by May 15 for the upcoming fiscal year. In May 2013, the JLBC Staff reported the amount to be \$3,273,100. Due to calculation error, the amount was subsequently revised to \$3,268,400.

Monies for the Rural County Allocation are authorized by A.R.S. § 15-1469.01, and therefore do not appear in the General Appropriation Act.

Rural County Reimbursement Subsidy

The Baseline includes \$848,800 from the General Fund in FY 2015 for Rural County Reimbursement Subsidy. This amount is unchanged from FY 2014.

This funding partially offsets the cost to counties that are not part of an established community college district. The funding is appropriated to Apache and Greenlee Counties. The FY 2015 Baseline allocates \$466,000 to Apache and \$382,800 to Greenlee.

Tribal Community Colleges

The Baseline includes \$2,625,000 from the General Fund in FY 2015 for Tribal Community Colleges. This amount is unchanged from FY 2014.

Background – A.R.S. § 42-5031.01 allows any qualifying tribal community college to receive \$1,750,000, or 10% of the Transaction Privilege Tax (TPT) revenues collected from all sources located on the reservation, whichever is less. These monies provide tribal community colleges with funding for maintenance, renewal, and capital expenses. A.R.S. § 42-5031.01 also allows any additional technical college located on the same reservation to receive \$875,000, or 5% of the TPT revenues collected from sources located on the reservation, whichever is less, starting in FY 2014. Actual amounts for FY 2015 will depend on FY 2015 collections. Given the language of A.R.S. § 42-5031.01, these monies do not appear in the General Appropriation Act.

Table 4

Total Estimated Community College Revenues – FY 2014

<u>District</u>	<u>State Aid</u>	<u>Tuition/Fees</u>	<u>Property Taxes</u>	<u>Grants</u>	<u>Other</u> ^{1/}	<u>FY 2014 Total</u> ^{2/}	<u>FY 2013 Total</u> ^{3/}	<u>% Change from FY 2013</u>
Cochise	\$10,872,900	\$8,667,900	\$18,627,900	\$17,827,900	\$1,608,100	\$57,604,700	\$49,010,700	17.5%
Coconino	1,987,900	7,442,700	8,947,800	6,696,200	977,600	26,052,200	24,874,800	4.7%
Gila ^{4/}	420,700	0	3,814,300	130,000	475,000	4,840,000	4,547,400	6.4%
Graham	18,638,900	7,615,500	5,267,700	12,000,000	8,577,700	52,099,800	44,314,800	17.6%
Maricopa	7,913,300	299,209,500	491,865,800	319,070,800	56,443,900	1,174,503,300	978,474,000	20.0%
Mohave	1,871,100	10,220,200	20,413,300	19,559,200	300,500	52,364,300	51,136,000	2.4%
Navajo	7,283,400	4,755,000	13,341,300	6,400,000	2,331,000	34,110,700	33,541,100	1.7%
Pima	7,136,600	55,835,000	97,772,000	79,431,000	5,558,000	245,732,600	212,568,400	15.6%
Pinal	2,392,700	12,855,000	42,437,300	25,800,000	(26,487,200)	56,997,800	78,683,900	(27.6)%
Santa Cruz ^{4/}	75,400	0	1,421,100	25,000	10,500	1,532,000	369,200	315.0%
Yavapai	1,142,500	11,310,000	45,803,400	14,536,000	4,395,700	77,187,600	75,169,700	2.7%
Yuma/La Paz	3,031,100	13,507,600	30,128,100	20,000,000	4,063,500	70,730,300	78,912,500	(10.4)%
Total	\$62,766,500	\$431,418,400	\$779,840,000	\$521,476,100	\$58,254,300	\$1,853,755,300	\$1,631,602,500	13.6%

1/ Includes auxiliary programs, interest income, 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 \$2,515,682,800 for FY 2014.

3/ Total revenues do not include bond proceeds or district fund balances. Including these amounts total revenues are \$1,909,789,700 for FY 2013.

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

This funding is limited to tribes that entered into a compact with the Executive prior to September 1, 2012. Diné College and Navajo Technical College on the Navajo Nation are the only schools that currently qualify to receive TPT revenues.

The Baseline assumes that \$1,750,000 will be distributed to Diné College and \$875,000 will be distributed to Navajo Technical College in FY 2015. These amounts represent 10% and 5%, up to \$1,750,000 and \$875,000, respectively, of the estimated TPT revenues to be collected in the Navajo reservation in FY 2015.

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FORMAT — District by District Special Line Items

FOOTNOTES

Standard Footnotes

Of the \$848,800 appropriated to the Rural County Reimbursement Subsidy line item, Apache County will receive \$466,000 and Greenlee County \$382,800.

STATUTORY CHANGES

The Baseline would:

- As session law, continue to suspend STEM and Workforce Programs state aid formula funding and instead fund the amounts specified in the General Appropriation Act for FY 2015.

- As session law, continue to require each university and community college to deposit \$6 per each full-time student into the Department of Education’s Education Learning and Accountability Fund by December 1, 2014. This assessment is expected to generate \$795,200 from the universities and \$848,800 from the community colleges. (*Please see Arizona Department of Education budget narrative for more information.*)

OTHER ISSUES FOR LEGISLATIVE CONSIDERATION

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 3% of their revenues from state aid.

For FY 2014, base operating revenues from all sources are estimated to be \$1,853,755,300, which would be an increase of 13.6% from FY 2013. (*See Table 4 for a summary of FY 2014 total revenue estimates.*)

Property taxes are the single largest revenue source for the community colleges, accounting for 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. (*See Table 5 for a summary of FY 2014 property tax rates.*)

In November 2012, Arizona voters approved Proposition 117, which will consolidate the primary and secondary tax bases into a single tax base (for purposes of levying taxes) and will cap annual property value increases on any single parcel of real property to 5% starting in FY 2016. The proposition will not limit the community college districts' current ability to generate 2% more in property tax revenues annually, not including revenue from new construction. Any increase over 2% requires voter approval, unless the district has forgone increases in prior years and consolidates those increases into a single year.

Table 5
Community College Tax Rates – FY 2014

<u>District</u>	<u>Primary Rate</u>	<u>Secondary Rate</u>	<u>Combined Rate</u>	<u>% Change in Combined Rate from FY 2013</u>
Cochise	\$1.85	\$0.00	\$1.85	6.9%
Coconino	0.46	0.12	0.58	16.0%
Gila	0.87	0.00	0.87	16.0%
Graham	2.74	0.00	2.74	13.7%
Maricopa	1.29	0.24	1.53	10.9%
Mohave	1.15	0.00	1.15	4.5%
Navajo	1.48	0.00	1.48	9.6%
Pima	1.27	0.02	1.29	9.3%
Pinal	1.89	0.36	2.25	19.7%
Santa Cruz	0.42	0.00	0.42	500.0%
Yavapai	1.82	0.22	2.04	7.9%
Yuma/La Paz	1.88	0.34	2.22	8.8%

Long term property value growth has been approximately 5%. From that perspective, Proposition 117 would tend to reduce the year-to-year volatility in property tax values rather than reduce the dollar amount of long term revenues. However, the property tax base might grow more slowly under Proposition 117 because the property tax values would not be able to increase by more than 5% to offset the years that experience growth that is less than 5%.

To the extent that the property value grows more slowly because of Proposition 117, the community colleges could still generate the same level of revenue by increasing their tax rates.

The community colleges also collect tuition and fees from enrolled students. These collections account for approximately 23% of total revenues. Tuition and fees are assessed on a per credit hour basis. FY 2014 weighted average tuition was \$2,334, an increase of 5.8% from FY 2013. Full-time annual tuition costs range from \$1,920 at Graham, to \$2,610 at Coconino. (See Table 6 for FY 2014 resident tuition and fee rates.)

Community colleges also receive grants and “other” revenue from a variety of sources. Combined, they account for approximately 31% 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

Table 6
Community College Resident Tuition and Fees – FY 2014

<u>District</u>	<u>Cost Per Credit Hour</u>	<u>Annual Cost^{1/}</u>	<u>% Change from FY 2013</u>
Cochise	\$73	\$2,190	4.3%
Coconino	87	2,610	2.4%
Gila	66	1,976	(20.0)%
Graham	64	1,920	20.0%
Maricopa	81	2,430	6.6%
Mohave	85	2,550	1.2%
Navajo	66	1,990	3.1%
Pima	72	2,150	4.4%
Pinal	77	2,310	10.0%
Santa Cruz	73	2,190	4.3%
Yavapai	70	2,100	0.0%
Yuma/La Paz	72	2,160	0.0%
Weighted Average	\$78	\$2,334	5.8%

^{1/} Annual cost is for 30 hours a year, or 15 hours per semester.

listed in the “other” category includes auxiliary programs, interest incomes, workforce development funds, and transfers.

Total Community College Expenditures
Table 7 shows total budgeted FY 2014 community college expenditures. In FY 2014, total budgeted expenditures are \$2,510,387,200. As mentioned previously, base operating revenues for FY 2014 are \$1,853,755,300; however, this figure does not include allocated fund balances or bond proceeds. Including these amounts, total available revenues are \$2,515,682,800. Of the total \$2,510,387,200 in expenditures, \$1,685,900,300, or 67%, of these expenditures are from the community colleges’ general and restricted funds. This includes about \$520,733,100, or 21%, for instruction and \$250,591,100, or 9%, for administrative support.

Expenditures for auxiliary enterprises, including revenue generating retail and business services such as parking lots, book stores, and food service, are \$188,277,600, or 7% of the total. Plant Fund expenditures, which generally include capital costs, are \$456,664,000, or 18% of the total. The remaining \$179,545,300 is for debt service.

Table 7
Community Colleges - FY 2014 Budgeted Expenditures

<u>General/Restricted Funds</u>	<u>Total</u>	<u>% of Total</u>
Instruction	\$520,733,100	21%
Public Service	29,223,900	1%
Academic Support	148,919,700	6%
Student Services	151,089,800	6%
Administrative Support	250,591,100	10%
Operation & Maintenance	110,412,600	4%
Scholarships/Grants	395,082,300	16%
Contingency	79,847,800	3%
Subtotal	\$1,685,900,300	67%
Auxiliary Enterprises Fund	\$ 188,277,600	7%
Plant Fund	456,664,000	18%
Debt Service	179,545,300	7%
Total	\$ 2,510,387,200	100%

SUMMARY OF FUNDS	FY 2013 Actual	FY 2014 Estimate
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Tribal Assistance Fund (No Fund Number/A.R.S. § 42-5029)	Non-Appropriated	
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Source of Revenue: A portion of the 0.6% education sales tax. The law directs each qualifying tribal community college to receive distributions in the same manner as the transfers to individual community college district workforce development accounts. A "qualifying Indian tribe" is an Indian tribe that owns, operates, and charters any community college located on its own reservation in this state.

Purpose of Fund: To fund workforce development and job training activities at a community college owned, operated, or chartered by a qualifying Indian tribe.

Funds Expended	738,400	726,900
Year-End Fund Balance	0	0

Workforce Development Accounts (varies by account/A.R.S. § 15-1472)	Non-Appropriated	
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Source of Revenue: Three percent of collections from the 0.6% education sales tax, after debt service on state school facilities revenue bonds has been paid. This funding was authorized by voter approval of Proposition 301 in the November 2000 General Election.

Purpose of Fund: To fund workforce development and training activities at the community college districts. From FY 2002 to FY 2014, the first \$1,000,000 is to be distributed to bring the state into compliance with the matching capital requirements for new community college campuses prescribed in A.R.S. § 15-1463.

Funds Expended	14,854,500	15,743,500
Year-End Fund Balance	0	0