

Arizona Board of Regents

	FY 2013 ACTUAL	FY 2014 ESTIMATE	FY 2015 BASELINE
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	25.9	25.9	25.9
Personal Services	1,738,300	1,544,000	1,544,000
Employee Related Expenditures	452,900	446,000	446,000
Professional and Outside Services	20,600	21,700	21,700
Other Operating Expenditures	138,800	337,900	337,900
OPERATING SUBTOTAL	2,350,600	2,349,600	2,349,600
SPECIAL LINE ITEMS			
Arizona Teachers Incentive Program	90,000	90,000	90,000
Arizona Transfer Articulation Support System	213,700	213,700	213,700
Performance Funding	5,000,000	5,000,000	5,000,000
Student Financial Assistance	10,041,200	10,041,200	10,041,200
Western Interstate Commission Office	125,000	131,000	131,000
WICHE Student Subsidies	4,095,500	4,100,000	4,100,000
AGENCY TOTAL	21,916,000	21,925,500	21,925,500
FUND SOURCES			
General Fund	21,916,000	21,925,500	21,925,500
SUBTOTAL - Appropriated Funds	21,916,000	21,925,500	21,925,500
Other Non-Appropriated Funds	9,558,300	13,750,600	11,720,200
Federal Funds	2,509,400	1,368,500	892,300
TOTAL - ALL SOURCES	33,983,700	37,044,600	34,538,000

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.

Operating Budget

The Baseline includes \$2,349,600 and 25.9 FTE Positions from the General Fund in FY 2015 for the operating budget. These amounts are unchanged from FY 2014.

Arizona Teachers Incentive Program

The Baseline includes \$90,000 from the General Fund in FY 2015 for the Arizona Teachers Incentive Program (ATIP). This amount is unchanged from FY 2014.

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 2013, ATIP distributed \$50,000 in loans among 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 Baseline includes \$213,700 from the General Fund in FY 2015 for the Arizona Transfer Articulation Support System (ATASS). This amount is unchanged from FY 2014.

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 tribal colleges and community college districts overall contributed \$277,200 to the system in FY 2013 and are projected to also contribute \$277,200 in both FY 2014 and FY 2015.

Performance Funding

The Baseline includes \$5,000,000 from the General Fund in FY 2015 for the Performance Funding Special Line Item (SLI). This amount is unchanged from FY 2014 and

represents a continuation of the same \$5,000,000 that was appropriated in FY 2014.

The FY 2013 appropriation of \$5,000,000 was distributed as follows: \$2,192,000 to ASU - Tempe/Downtown Phoenix, \$156,300 to ASU - East, \$271,700 to ASU - West, \$1,035,000 to NAU, and \$1,345,000 to UA – Main. While the \$5,000,000 remains part of the ABOR FY 2013 actuals, the FY 2014 budget reallocates these monies to the individual university budgets, according to their FY 2013 allocation.

The FY 2014 appropriation of \$5,000,000 was distributed as follows: \$2,348,800 to ASU - Tempe/Downtown Phoenix, \$165,300 to ASU - East, \$190,900 to ASU - West, \$1,090,000 to NAU, and \$1,205,000 to UA - Main, but is shown in the ABOR section. These amounts remain allocated in the ABOR section of the FY 2015 Baseline and are not allocated to the individual universities.

Background - The FY 2013 Higher Education Budget Reconciliation Bill (BRB) (Laws 2012, Chapter 301), required ABOR and the universities to adopt a performance funding model by July 1, 2012. This session law was continued in the FY 2014 Higher Education BRB, as well as the General Appropriation Act (Laws 2013, 1st Special Session, Chapter 1). The model is to use performance metrics that include the increase in degrees awarded, the increase in completed student credit hours, and the increase in externally generated research and public service funding. The formula may give added weight to degrees related to science, technology, engineering, mathematics, and other high-value degrees that are in short supply or that are essential to the state's long-term economic development strategy.

A budget footnote requires that ABOR use the adopted performance funding model in developing and submitting future budget requests for the universities under its jurisdiction, and that the Legislature use the performance funding model in the development of future fiscal year appropriations for the universities. (*See the Other Issues for Legislative Consideration section for additional information.*)

Student Financial Assistance

The Baseline includes \$10,041,200 from the General Fund in FY 2015 for Student Financial Assistance. This amount is unchanged from FY 2014.

Pursuant to A.R.S. § 15-1642, monies in this line item match financial aid tuition surcharges collected from university students. The Arizona Financial Aid Trust (AFAT) fee is 1% of the full-time resident undergraduate tuition rate, or \$69 - \$93 in FY 2014, depending on the university. All students pay roughly the same fee, except part-time students, who pay half the regular fee. The FY 2014 Higher Education BRB (Laws 2013, 1st Special

Session, Chapter 7) continued to suspend the statutory requirement that the state provide a 2:1 ratio of state funding to student fees in FY 2014.

AFAT retains 25% of all annual receipts as an endowment. ABOR distributes the remaining monies, proportionally to each university's respective contribution, to provide immediate assistance for needy in-state students. In FY 2013, AFAT disbursed \$19,116,400.

Western Interstate Commission Office

The Baseline includes \$131,000 from the General Fund in FY 2015 for the Western Interstate Commission Office. This amount is unchanged from FY 2014.

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 Baseline includes \$4,100,000 from the General Fund in FY 2015 for WICHE student subsidies. This amount is unchanged from FY 2014.

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.

In FY 2014, the board is providing subsidies to 174 Arizona students, which is (7) fewer than FY 2013. 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 100% of their subsidies, plus interest. The FY 2014 Higher Education BRB increased this repayment amount from 50%.

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.

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FORMAT — Operating Lump Sum with Special Line Items by Agency

FOOTNOTES

Standard Footnotes

Performance Funding

The \$5,000,000 appropriation for performance funding shall be allocated by the Arizona Board of Regents to the 3 universities under its jurisdiction in accordance with a performance funding model to be adopted by the board that is substantially similar to what the board used in allocating the Performance Funding appropriation for FY 2014.

It is the intent of the Legislature that the Arizona Board of Regents adopt a performance funding model and report the final allocation of the \$5,000,000 performance funding lump sum appropriation on or before July 1, 2014 to the Joint Legislative Budget Committee. The formula shall be consistent with board objectives previously adopted in the board's enterprise plan. The performance funding model shall use select performance metrics that include, at minimum, the increase in degrees awarded, the increase in completed student credit hours and the increase in externally generated research and public service funding. The formula may give added weight to degrees related to science, technology, engineering and math, as well as other high-value degrees that are in short supply or are essential to the state's long-term economic development strategy.

It is further the intent of the Legislature that the Arizona Board of Regents use the adopted performance funding model in developing and submitting future budget requests for the universities under its jurisdiction, and that the Legislature use the performance funding model in the development of future fiscal year appropriations for the universities under the jurisdiction of the Arizona Board of Regents.

ABOR Specific Standard Footnotes

Within 10 days after the acceptance of the universities' semiannual all funds budget reports, the Arizona Board of Regents shall submit an expenditure plan for review to the Joint Legislative Budget Committee. 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.

Universitywide Standard Footnotes

The appropriated monies shall not be used for scholarships or any student newspaper.

The state General Fund appropriations shall not be used for alumni association funding.

Any unencumbered balances remaining in the collections account on June 30, 2014 and all collections received by a university during the fiscal year, when paid into the State

Treasury, are appropriated for operating expenditures, capital outlay, and fixed charges. Earnings on state lands and interest on the investment of the permanent land funds are appropriated in compliance with the Enabling Act and the Constitution of Arizona. No part of this appropriation may be expended for supplemental life insurance or supplemental retirement. Receipts from summer session, when deposited in the State Treasury, together with any unencumbered balance in the summer session account, are appropriated for the purpose of conducting summer sessions but are excluded from the amounts enumerated above.

STATUTORY CHANGES

The Baseline would:

- As session law, continue to suspend the statutory requirement that the state provide a 2:1 ratio of state funding to student fees deposited into AFAT. Based on student fees contributed to AFAT in FY 2013, the state's match would grow to \$22,687,000 or an increase of \$12,645,800 over the current appropriation in FY 2015.
- As session law in the General Appropriation Act, continue the FY 2014 \$200,000,000 universitywide payment deferral to the universities from FY 2015 to FY 2016.
- 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

Parity Funding

The Baseline includes \$45,821,100 from the General Fund in FY 2015 to align ASU's and NAU's per pupil funding to that of the higher UA amount. The Baseline allocates this funding as follows: \$30,666,600 to ASU - Tempe/Downtown Phoenix, \$5,246,700 to ASU - East, \$9,907,800 to NAU.

The first parity appropriation of \$15,273,700 was enacted in FY 2013 with an increase of an equal amount in FY 2014 for a total of \$30,547,400. The Baseline total includes an additional \$15,273,700 in FY 2015. Pursuant to a FY 2013 General Appropriation Act footnote the goal of this funding is to achieve parity no later than FY 2017. At a rate of increase of \$15,273,700 annually, parity may not be achieved by FY 2017, if enrollment growth at UA is outpaced by enrollment growth at ASU and NAU.

Payment Deferral

The Baseline includes \$200,000,000 from the General Fund for universitywide FY 2014 payments that would be deferred until FY 2015 and includes a universitywide FY 2015 General Fund payment deferral of \$(200,000,000) until FY 2016. The payment deferral is unchanged from FY 2011. (Please see the individual university narrative pages for more information.)

The FY 2015 payment deferrals are allocated among the universities as follows:

ASU-Tempe/DPC	\$ (74,760,400)
ASU-East	(5,750,200)
ASU-West	<u>(10,064,800)</u>
ASU Subtotal	\$ (90,575,400)
NAU	\$ (30,494,800)
UA-Main	\$ (62,153,100)
UA-HSC	<u>(16,776,700)</u>
UA Subtotal	\$ (78,929,800)
Total	\$ (200,000,000)

University System Summary Tables

Table 1 summarizes the FY 2015 expenditure authority amounts for the Arizona University System. The Collections Fund amounts for each campus includes growth, as reported by the universities, due to FY 2014 increases in tuition collections. The General Fund amounts do not include additional growth.

Table 2 shows enrollment for Arizona University System students in fall 2012, spring 2013 and fall 2013. ASU-Tempe enrollment increased by 2,322 FTE for a total of 52,342 in fall 2013, ASU DPC grew by 696 for a total of 12,051, ASU East increased by 120 for a total of 5,177, ASU West increased by 189 for a total of 6,344, NAU increased by 603 for a total of 24,593, UA Main decreased by (1) for a total of 36,606, and UA Health Sciences

increased by 259 for a total of 3,031. Prior to the FY 2014 budget, the university system projected enrollment was calculated for the next academic year based on a weighted rolling average of the next, current, and prior academic years, with the current academic year receiving double the weight of each of the other 2 years. Enrollment information is now based on actual enrollment data.

Table 3 shows ABOR changes to resident and non-resident undergraduate tuition from FY 2013 to FY 2014.

Table 4 shows the financial aid distribution and the sources of aid for the Arizona University System in FY 2013. Of \$1,922,384,600 total financial aid distributions in FY 2013, the state appropriated \$1,917,900, university institutional services provided \$622,781,100, and AFAT (made up of both state and institutional funds) accounted for \$19,116,400.

Table 5 displays total tuition collections for the Arizona University System, which equal an estimated \$1,656,523,700 in FY 2014 and \$1,758,326,500 in FY 2015. The FY 2015 amount reflects estimated student growth and does not reflect any tuition changes.

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.

	FY 2015 Summary of Spending Authority					
	Appropriated Funds			Non-Appropriated Funds		
	General Fund	Collections Fund^{1/}	Tech & Research Fund (TRIF)	Federal Funds	Other Funds	Total
ABOR	\$ 21,925,500	\$ 0	\$ 0	\$ 892,300	\$ 11,720,200	\$ 34,538,000
ASU-Tempe/DPC	280,450,400	453,068,700	0	288,448,000	837,962,800	1,859,929,900
ASU-East	24,453,100	33,691,700	2,000,000	5,850,000	18,634,300	84,629,100
ASU-West	33,328,100	39,380,300	1,600,000	13,003,900	21,683,800	108,996,100
NAU	112,547,600	120,281,100	0	74,589,800	191,057,600	498,476,100
UA-Main	208,501,000	271,507,700	0	292,794,400	881,711,000	1,654,514,100
UA-Health Sciences	69,585,300	41,117,000	0	123,682,600	215,490,800	449,875,700
Total	\$750,791,000	\$959,046,500	\$3,600,000	\$799,261,000	\$2,178,260,500	\$4,690,959,000

^{1/} Excludes FY 2015 tuition adjustments.

Table 2
Arizona University System 45th Day Enrollment ^{1/}

	<u>Fall 2012</u>	<u>Spring 2013</u>	<u>Fall 2013</u>	<u>Fall 2012 to Fall 2013 % Change</u>
ASU-Tempe/ DPC	61,375	58,097	64,393	4.9%
ASU-East	5,057	5,298	5,177	2.4%
ASU-West	6,155	5,943	6,344	3.1%
NAU	23,990	22,420	24,593	2.5%
UA-Main	36,607	34,466	36,606	0.0%
UA-Health Sciences	<u>2,772</u>	<u>2,885</u>	<u>3,031</u>	<u>9.3%</u>
Total	135,955	129,109	140,144	3.1%

^{1/} Enrollment includes 271 full-time equivalent students with excess credit hours in fall 2012, 453 in spring 2013 and 355 in fall 2013.

Table 3
**Arizona University System
FY 2013 to FY 2014 Undergraduate Tuition and Fees Changes ^{1/}**

	<u>Resident ^{2/}</u>				<u>Non-Resident ^{2/}</u>			
	<u>FY 2013</u>	<u>FY 2014</u>	<u>\$ Change</u>	<u>% Change</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>\$ Change</u>	<u>% Change</u>
ASU	\$8,740 to \$9,720	\$9,074 to \$10,002	\$264 to \$282	2.9%	\$22,973	\$23,654	\$681	3.0%
ASU-Distance Ed.	\$6,236	\$6,418	\$182	2.9%	9,236	\$9,508	\$272	2.9%
NAU	\$6,909 to \$9,271	\$7,831 to \$9,738	\$467 to \$922	5.0% to 13.3%	\$18,136 to \$21,626	\$20,231 to \$22,093	\$467 to \$2,095	2.2% to 11.6%
NAU-Distance Ed.	\$4,948 to \$6,508	\$5,097 to \$6,705	\$149 to \$197	3.0%	\$14,715 to \$18,190	\$14,864 to \$18,387	\$149 to \$197	1.0% to 1.1%
UofA-Main/HSC	\$10,035	\$10,391	\$356	3.5%	\$26,231	\$27,073	\$842	3.8%
UofA-South	\$7,941	\$8,166	\$225	2.8%	\$25,808	\$26,570	\$762	3.0%

^{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. Mandatory fees include AFAT and student recreation charges, but do not include special class or program fees.
^{2/} NAU provides a guaranteed tuition rate for each incoming class. ASU previously had a tuition commitment rate for each incoming class, however, both ASU and UA currently do not have tuition guarantees.

Table 4
**FY 2013 Financial Aid Distribution by Source
(\$ in Thousands) ^{1/}**

	<u>Federal</u>	<u>State ^{2/}</u>	<u>Institutional ^{3/}</u>	<u>Private/Other ^{4/}</u>	<u>Total</u>
Grants	\$214,683.3	\$1,636.5	\$456,395.9	\$166,963.1	\$ 839,678.8
Loans	693,078.4	281.4	77.0	217,203.2	910,640.0
Employment	<u>5,757.6</u>	<u>0.0</u>	<u>166,308.2</u>	<u>0.0</u>	<u>172,065.8</u>
Total	\$913,519.3	\$1,917.9	\$622,781.1	\$384,166.3	\$1,922,384.6

^{1/} Information provided by ABOR.
^{2/} State sources of aid include revenues from the Commission for Postsecondary Education.
^{3/} Institutional sources of aid include revenues from: Local Retention, the Collegiate License Plate Fund, Foundation funds, and Financial Aid Carry Forward from previous years.
^{4/} Private/Other sources of aid include AFAT, which is a combination of both state and institutional sources of aid.

Tuition Revenue Allocation			
	FY 2013	FY 2014	FY 2015
	<u>Actual</u>	<u>Estimate</u>	<u>Estimate</u> ^{2/}
<u>Appropriated</u>			
Operating Budget	\$ 912,616,200	\$ 959,046,500 ^{1/}	\$ 993,572,200
<u>Non-Appropriated</u>			
Operating Budget	\$ 126,842,900	\$ 157,293,200	\$ 189,025,700
Financial Aid	401,858,500	427,073,700	453,880,200
Plant Fund	18,502,100	23,502,100	28,502,100
Debt Service	<u>84,773,900</u>	<u>89,608,200</u>	<u>93,346,300</u>
<i>Subtotal</i>	\$ 631,977,400	\$ 697,477,200	\$ 764,754,300
Total	\$1,544,593,600	\$1,656,523,700	\$1,758,326,500

^{1/} This amount reflects appropriated tuition collections and fees as allocated by ABOR and favorably reviewed by the JLBC at its August 2013 meeting.

^{2/} The source for these non-appropriated amounts are the universities' FY 2015 budget requests. The appropriated amount includes all FY 2015 estimated tuition collections and fees.

SUMMARY OF FUNDS	FY 2013	FY 2014
	Actual	Estimate
Arizona Health Education Center Program Fund (BRA2/A.R.S. § 5-522)		Non-Appropriated
Source of Revenue: Lottery proceeds.		
Purpose of Fund: To provide funding for the 5 Arizona Area Health Education Centers, which work to improve healthcare access for rural and underserved communities. These funds are passed through to the universities, and therefore expenditures are not displayed to avoid double counting. Pass-through funds totaled \$4,609,700 in FY 2013 and are expected to be \$4,896,900 in FY 2014 and \$4,974,800 in FY 2015.		
Funds Expended	0	0
Year-End Fund Balance	0	0
Federal Fund (BRA2000/A.R.S. § 15-1666)		Non-Appropriated
Source of Revenue: Grants from the United States Department of Education.		
Purpose of Fund: To support pre-service, retraining, and in-service educational programs improving the instructional and management skills of K-12 and vocational school teachers and administrators, with an emphasis on core subjects.		
Funds Expended	2,509,400	1,368,500
Year-End Fund Balance	34,900	0
Regents Local Fund (BRA1/A.R.S. § 15-1626)		Non-Appropriated
Source of Revenue: Contributions of retained tuition from the 3 universities.		
Purpose of Fund: To supplement the ABOR operating budget.		
Funds Expended	3,955,900	6,196,500
Year-End Fund Balance	2,458,300	240,900
Technology and Research Initiative Fund (BRA2472/A.R.S. § 15-1648)		Non-Appropriated
Source of Revenue: A portion of a 0.6% sales tax, as authorized by voters through Proposition 301 in the November 2000 General Election and as governed by statute. Total receipts were \$59,807,700 in FY 2013 and are estimated to be \$69,310,100 in FY 2014.		
Purpose of Fund: To provide grants for university technology and research initiatives, with preference given to federal or private partnerships, as well as to programs for non-traditional students; also, for up to 20% of fund monies, to support capital projects, including debt service, relating to technology and research. The displayed expenditures represent only that portion of tax receipts utilized by ABOR. The board transfers all other receipts to university Restricted Funds, which reflect those monies.		
Funds Expended	2,089,000	3,976,500
Year-End Fund Balance	1,976,500	0

SUMMARY OF FUNDS	FY 2013 Actual	FY 2014 Estimate
Trust Land Fund (BRA3131/3132/3134/3136/A.R.S. § 15-1662)		Non-Appropriated
<p>Source of Revenue: Monies derived from the lease, sale, or other disposition of lands granted to the state by the United States for the use and benefit of the universities. Land funds are allocated for Agricultural and Mechanical Colleges, Military Institutes, Universities, and Normal Schools, respectively. Total land earnings were \$3,523,700 in FY 2013 and are estimated to be \$3,523,700 in FY 2014.</p> <p>Purpose of Fund: To operate agricultural and mechanical colleges, to support university Reserve Officers' Training Corps programs, to match private funds attracting distinguished faculty, and to operate teacher training programs, respectively. The displayed expenditures represent only that portion of trust land earnings transferred to university endowments to support outstanding faculty. ABOR transfers all other trust land earnings to University Collections Funds, which reflect those monies.</p>		
Funds Expended	3,513,400	3,577,600
Year-End Fund Balance	53,900	0