Arizona Community Colleges

	FY 2014 ACTUAL	FY 2015 ESTIMATE	FY 2016 APPROVED
SPECIAL LINE ITEMS			
Operating State Aid			
Cochise	5,710,100	5,343,400	5,206,000
Coconino	1,840,400	1,775,800	1,771,200
Gila	370,700	346,300	368,100
Graham	2,345,700	2,261,300	2,175,600
Maricopa	7,913,300	7,409,500	0
Mohave	1,659,400	1,543,300	1,524,000
Navajo	1,646,600	1,618,200	1,582,100
Pima	7,136,600	6,493,500	0
Pinal	2,135,000	2,023,900	1,903,500
Santa Cruz	58,700	47,900	57,300
Yavapai	893,900	887,000	890,300
Yuma/La Paz	2,754,400	2,726,600	2,702,500
Subtotal - Operating State Aid	34,464,800	32,476,700	18,180,600
STEM and Workforce Programs State Aid			
Cochise	450,400	1,236,700	1,150,000
Coconino	147,500	426,900	423,200
Gila	50,000	142,800	160,900
Graham	218,100	640,500	569,500
Maricopa	0	1,400,000	0
Mohave	211,700	593,700	577,700
Navajo	122,600	375,400	345,500
Pima	0	600,000	0
Pinal	257,700	1,009,300	96,500
Santa Cruz	16,700	45,400	53,100
Yavapai	248,600	802,900	805,700
Yuma/La Paz	276,700	882,500	867,300
Subtotal - STEM and Workforce Programs State Aid	2,000,000	8,156,100	5,049,400
Equalization Aid			
Cochise	4,712,400	3,870,500	4,332,800
Graham	16,075,100	15,025,500	14,538,800
Navajo	5,514,200	5,283,300	5,849,400
Subtotal - Equalization Aid	26,301,700	24,179,300	24,721,000
Rural County Allocation	3,268,400	3,195,500	3,195,500 [1/]
Rural County Reimbursement Subsidy	848,800	1,273,800	1,273,800 [2/]
Tribal Community Colleges	2,625,000	2,625,000	2,625,000 [3/]
AGENCY TOTAL	**69,508,700**	**71,906,400**	**55,045,300** [4/]
FUND SOURCES			
General Fund	69,508,700	71,906,400	55,045,300
SUBTOTAL - Appropriated Funds	**69,508,700**	**71,906,400**	**55,045,300**
Other Non-Appropriated Funds	17,062,300	17,696,600	17,696,600
TOTAL - ALL SOURCES	86,571,000	89,603,000	72,741,900

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 budget includes $18,180,600 from the General Fund in FY 2016 for Operating State Aid. This amount funds the following adjustments:

Enrollment Changes

The budget includes a decrease of $(1,519,800) from the General Fund in FY 2016 to fund the statutory formula for Operating State Aid.

Apart from the Maricopa and Pima reductions described below, the budget funds statutory formula costs for a (5,832), or (4.4%), decrease in Full Time Student Equivalent (FTSE) students in community colleges statewide *(see Table 1).* The (5,832) net FTSE decrease consists of a (6,156) FTSE decrease in non-dual enrollment students and a 324 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.

Formula Changes

The budget includes a decrease of $(12,776,300) from the General Fund in FY 2016 to fund adjustments to the formula for Operating State Aid.

As permanent law, the FY 2016 Higher Education Budget Reconciliation Bill (BRB) (Laws 2015, Chapter 16) eliminates Operating State Aid for Maricopa and Pima. If fully funded, the FY 2016 formula would cost an additional $12,776,300 (Maricopa, $6,681,400 and Pima, $6,094,900).

Background – With the exception of Maricopa and Pima, 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 2016, the last actual FTSE data was from FY 2014.)*

Table 1

Community College Enrollment

District	FY 2013 FTSE	FY 2014 FTSE	Percentage Change
Cochise	7,766	7,221	(7.0)%
Coconino	2,099	2,092	(0.3)%
Gila	703	785	11.7 %
Graham	3,107	2,765	(11.0)%
Maricopa	81,218	78,454	(3.4)%
Mohave	2,987	2,919	(2.3)%
Navajo	1,962	1,825	(7.0)%
Pima	19,514	17,963	(7.9)%
Pinal	4,822	4,354	(9.7)%
Santa Cruz	218	254	16.5 %
Yavapai	3,984	4,002	0.5%
Yuma/La Paz	5,537	5,451	(1.6)%
Total	**133,917**	**128,085**	**(4.4)%**

STEM and Workforce Programs State Aid

The budget includes $5,049,400 from the General Fund in FY 2016 for Science, Technology, Engineering and Mathematics (STEM) and Workforce Programs State Aid (formerly Capital Outlay State Aid). This amount funds the following adjustments:

Enrollment Changes

The budget includes a decrease of $(1,106,700) from the General Fund in FY 2016 to fund STEM and Workforce Programs State Aid.

1/ A.R.S. § 15-1469.01 provides that the General Fund will pay the initial cost of students attending community colleges who are from counties that are not part of an established community college district, and then the state will withhold these counties' sales tax revenues to offset that cost. In FY 2016 the JLBC Staff calculates that amount to be $3,195,500. Because this appropriation is in permanent statute, it is not included in the General Appropriation Act.

2/ Of the $1,273,800 appropriated to the Rural County Reimbursement Subsidy line item, Apache County receives $699,300 and Greenlee County $574,500. (General Appropriation Act footnote)

3/ A.R.S. § 42-5031.01 directs the State Treasurer to annually transmit to the tribal colleges 10% of Transaction Privilege Tax (TPT) revenues collected from sources located on the reservation, or $1,750,000, whichever is less, as well as 5% of TPT revenues collected on the reservation, or $875,000, whichever is less, to a technical college on the same reservation. Because this appropriation is in permanent statute, it is not included in the General Appropriation Act.

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

As session law, the FY 2016 Higher Education BRB suspends the program's funding formula in A.R.S. § 15-1464 for FY 2016 and instead funds the amounts specified in the General Appropriation Act, which totals to $5,049,400. Enrollment changes reduce formula aid by $(293,700) and the budget also forgoes $(813,000) for Pinal in FY 2016 and limits their aid to $96,500.

Formula Changes

The budget includes a decrease of $(2,000,000) from the General Fund in FY 2016 to fund adjustments to the formula for STEM and Workforce Programs State Aid.

In FY 2015, the budget included $6,156,100 to fully fund the STEM formula for rural districts, and $2,000,000 to partially fund STEM for Maricopa and Pima ($1,400,000 and $600,000 respectively).

As permanent law, the FY 2016 Higher Education BRB eliminates STEM and Workforce Programs State Aid for Maricopa and Pima. The BRB also suspends the formula in A.R.S. § 15-1464 for FY 2016, since Pinal is limited to $96,500. All other districts receive their full formula funding. If fully funded the FY 2016 formula would cost an additional $15,876,400 (Maricopa, $12,207,100, Pima, $2,856,300 and Pinal, $813,000).

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 other than Maricopa and Pima 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.

The FY 2016 Higher Education BRB, however, also suspends the formula in A.R.S. § 15-1464 for FY 2016, since Pinal is limited to $96,500. All other districts receive their full formula funding.

Equalization Aid

The budget includes $24,721,000 from the General Fund in FY 2016 for Equalization Aid. This amount funds the following adjustments:

Property Value Changes

The budget includes an increase of $541,700 from the General Fund in FY 2016 to reflect increased formula costs for funding Equalization Aid due to assessed valuation changes. Detail of specific district changes is shown in *Table 2*.

Table 2

FY 2016 Equalization Funding Changes

District	FY 2015	Year-over-Year Change	FY 2016
Cochise	$3,870,500	$462,300	$4,332,800
Graham	15,025,500	(486,700)	14,538,800
Navajo	5,283,300	566,100	5,849,400
Total	**$24,179,300**	**$541,700**	**$24,721,000**

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 2016 Equalization Aid formula calculation, the minimum assessed valuation decreased (1.3)% to $1.27 billion. *(See Table 3 for the calculation of the growth rate.)*

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 (1.3)%, in TY 2014. In comparison, Cochise declined by (5.0)% and Navajo declined by (6.5)%. By declining more than the average district, Cochise and Navajo qualify for more aid. Graham property values increased by 9.6%. Since Graham came closer to the minimum assessed value (which declined 1.3%) they qualify for less aid.

Table 3

Equalization Growth Factor for Tax Years (TY) 2013-2014

District	TY 2013 Primary AV	TY 2014 Primary AV	TY 2013-2014 % Growth
Cochise*	$1,006,475,400	$955,719,000	(5.0)%
Graham*	192,240,700	210,752,700	9.6 %
Navajo*	903,351,900	845,016,700	(6.5)%
Coconino	1,519,086,300	1,518,999,200	0.0 %
Mohave	1,771,371,900	1,727,682,200	(2.5)%
Pinal	1,988,882,400	2,004,274,800	0.8 %
Yavapai	2,232,629,600	2,217,272,800	(0.7)%
Yuma/LaPaz	1,328,950,800	1,318,636,200	(0.8)%
Total	**$10,942,989,000**	**$10,798,353,600**	**(1.3)%**
Minimum AV	**$1,288,994,100**	**$1,271,979,400**	**(1.3)%**

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

In any one year a district's equalization assistance will depend on 1) whether the district falls below the minimum threshold ($1.27 billion in FY 2016) 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 budget includes $3,195,500 from the General Fund in FY 2016 for Rural County Allocation. This amount is unchanged from FY 2015.

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 2014 expenditure of $3,268,400 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 line item.)*

Each year, the amount is determined by enrollment counts submitted to the JLBC Staff. The JLBC Staff is required by A.R.S. § 1469D to report the county withholdings to the Treasurer by May 15 for the upcoming fiscal year. In May 2014, the JLBC Staff reported the amount to be $3,195,500 for FY 2015.

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 budget includes $1,273,800 from the General Fund in FY 2016 for Rural County Reimbursement Subsidy. This amount is unchanged from FY 2015.

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 2016 budget allocates $699,300 to Apache and $574,500 to Greenlee.

Tribal Community Colleges

The budget includes $2,625,000 from the General Fund in FY 2016 for Tribal Community Colleges. This amount is unchanged from FY 2015.

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. Actual amounts for FY 2016 will depend on FY 2016 collections. Given the language of A.R.S. § 42-5031.01, these monies do not appear in the General Appropriation Act.

This funding is limited to tribes that enter into a compact with the Executive. The FY 2016 Higher Education BRB extends the deadline for tribes to enter into a compact from September 1, 2012 to September 1, 2017. Diné College and Navajo Technical College on the Navajo Nation are the only schools that currently qualify to receive TPT revenues. The only other existing tribal community college in Arizona is Tohono O'Odham Community College. If Tohono O'Odham enters into a compact with the Executive before September 1, 2017 it would receive roughly $168,600, which is 10% of the total FY 2014 TPT collections from the reservation.

The budget assumes that $1,750,000 will be distributed to Diné College and $875,000 will be distributed to Navajo Technical College in FY 2016. 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 2016.

Additional Legislation

Community College Special Plate Fund

Laws 2015, Chapter 295 requires a community college district with more than 50,000 students to establish a Community College District Collegiate Special Plate Fund consisting of fees collected from the sale of community college specialty license plates issued by the Department of Transportation (ADOT). Of the $25 fee for the specialty plate, $8 goes to the State Highway Fund and $17 goes to the Community College District Collegiate Special Plate Fund. All monies in the fund are for academic scholarships. Maricopa is currently the only district with more than 50,000 students.

Table 4

Total Estimated Community College Revenues – FY 2015

District	State Aid	Tuition/Fees	Property Taxes	Grants	Other [1/]	FY 2015 Total [2/]	FY 2014 Total [3/]	% Change from FY 2014
Cochise	$10,450,600	$7,097,000	$19,430,100	$15,301,000	$7,329,700	$59,608,400	$49,828,700	19.6%
Coconino	2,202,700	7,383,000	9,189,700	8,093,700	958,600	27,827,700	25,378,000	9.7%
Gila [4/]	489,100	0	3,992,100	33,600	475,000	4,989,800	5,116,100	(2.5)%
Graham	17,927,300	6,867,300	5,652,200	11,359,500	9,223,900	51,030,200	42,472,700	20.1%
Maricopa	8,809,500	304,947,600	512,759,200	317,670,800	50,142,400	1,194,329,500	987,719,500	20.9%
Mohave	2,137,000	9,175,400	21,105,000	10,182,000	445,400	43,044,800	43,790,000	(1.7)%
Navajo	7,276,900	4,500,000	14,035,800	6,400,000	2,640,000	34,852,700	33,643,600	3.6%
Pima	7,093,500	54,068,000	100,327,000	65,787,000	5,053,500	232,329,000	208,645,800	11.4%
Pinal	3,033,200	12,478,000	42,413,000	24,615,700	4,711,100	87,251,000	80,431,900	8.5%
Santa Cruz [4/]	93,300	0	1,437,100	20,000	10,400	1,560,800	1,818,500	(14.2)%
Yavapai	1,689,900	11,867,000	46,313,200	15,674,000	4,372,500	79,916,600	76,138,700	5.0%
Yuma/La Paz	3,609,100	13,662,400	31,501,200	20,000,000	5,019,000	73,791,700	78,697,600	(6.2)%
Total	**$64,812,100**	**$432,045,700**	**$808,155,600**	**$495,137,300**	**$90,381,500**	**$1,890,532,200**	**$1,633,681,100**	**15.7%**

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 $2,495,555,000 for FY 2015.
3/ Total revenues do not include bond proceeds or district fund balances. Including these amounts total revenues are $1,735,166,200 for FY 2014.
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.

Community College Tuition Financing Districts

Laws 2015, Chapter 306 renames provisional community college districts established after December 31, 2014, to *community college tuition financing districts*, specifies the county board of supervisors will serve as the governing board to any community college tuition financing district, and establishes the study committee on community college finance and expenditure limits.

An area that wishes to form a community college but does not meet the minimum assessed valuation or population requirements in A.R.S § 15-1402 may form a provisional community college district. A provisional community college district is required to contract with an existing community college district to provide instruction and services to students. Gila and Santa Cruz currently are the only established provisional districts.

The study committee is directed to examine community college district constitutional expenditure limits, review the impact of expenditure limits on community college districts, establish methods to move closer to actual full time FTSE calculations for funding, study any other relevant topic or issue that may be pertinent to community college finances, and recommend proposed statutory changes.

Other Issues

Long-Term Budget Impacts

As part of the budget's 3-year spending plan, Community Colleges General Fund costs were projected to increase by $535,200 in FY 2017 above FY 2016 and $869,400 in FY 2018 above FY 2017. These estimates did not adjust for the elimination of Maricopa and Pima district operating aid and the reduction in Pinal STEM assistance. After adjusting for these changes, Community Colleges General Fund costs are expected to increase by $770,000 in FY 2017 and $985,200 in FY 2018.

These latter estimates are based on:

- Flat enrollment growth
- Assessed valuation growth of 1.02% in FY 2017 and FY 2018

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 3.4% of their revenues from state aid.

For FY 2015, base operating revenues from all sources are estimated to be $1,890,532,200, which would be an increase of 15.7% from FY 2014. *(See Table 4 for a summary of FY 2015 total revenue estimates.)*

Property taxes are the single largest revenue source for the community colleges, accounting for 42.7% 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 2015 property tax rates.)* In November 2012, Arizona voters approved Proposition 117, which will require primary and secondary taxes to be levied on the same tax base. Previously, taxes were levied on 2 valuations: full cash value and limited property value. Proposition 117 requires all property taxes to be levied on the limited property value.

Table 5

Community College Tax Rates – FY 2015

District	Primary Rate	Secondary Rate	Combined Rate	% Change in Combined Rate from FY 2014
Cochise	$2.03	$0.00	$2.03	9.7%
Coconino	0.48	0.13	0.61	5.2%
Gila	0.96	0.00	0.96	10.3%
Graham	2.67	0.00	2.67	(2.6)%
Maricopa	1.28	0.24	1.52	(0.7)%
Mohave	1.22	0.00	1.22	6.1%
Navajo	1.66	0.00	1.66	12.2%
Pima	1.33	0.00	1.33	3.1%
Pinal	1.91	0.35	2.26	0.4%
Santa Cruz	0.45	0.00	0.45	7.1%
Yavapai	1.86	0.22	2.08	2.0%
Yuma/La Paz	2.00	0.38	2.38	7.2%

Proposition 117 also caps annual property value increases on any single parcel of real property to 5% starting in FY 2016. The existing 2% "levy limit" remains in place. Under A.R.S. § 42-17051, community colleges are allowed to collect 2% more in property tax revenues annually, not including revenue from new construction. Any increase over 2% requires voter approval, unless the district has foregone increases in prior years and consolidates those increases into a single year.

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 22.9% of total revenues. Tuition and fees are assessed on a per credit hour basis. FY 2015 weighted average tuition (weighted for each district's proportion of the statewide FTSE count) is $2,430 if a full-time student attends for 30 hours a year. The FY 2015 amount represents an increase of 4.0% from FY 2014. *(See Table 6 for FY 2015 resident tuition and fee rates.)*

Table 6

Community College Resident Tuition and Fees – FY 2015

District	Cost Per Credit Hour	Annual Cost 1/	% Change from FY 2014
Cochise	$75	$2,250	2.7%
Coconino	89	2,670	2.3%
Gila	67	2,000	1.2%
Graham	67	2,000	4.2%
Maricopa	84	2,520	3.7%
Mohave	87	2,610	2.4%
Navajo	66	1,980	(0.5)%
Pima	77	2,300	7.0%
Pinal	80	2,400	3.9%
Santa Cruz	75	2,250	2.7%
Yavapai	72	2,160	2.9%
Yuma/La Paz	76	2,280	2.7%
Weighted Average	**$81**	**$2,430**	**4.0%**

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

Community colleges also receive grants and "other" revenue from a variety of sources. Combined, they account for approximately 31.0% 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.

Total Community College Expenditures

Table 7 shows total budgeted FY 2015 community college expenditures. In FY 2015, total budgeted expenditures are $2,502,170,600. As mentioned previously, base operating revenues for FY 2015 are $1,890,532,200 however, this figure does not include allocated fund balances or bond proceeds. Including these amounts, total available revenues are $2,495,555,000. Of the total $2,486,262,600 in expenditures, $1,555,465,600, or 62%, of these expenditures are from the community colleges' general and restricted funds. This includes about $557,926,200, or 22%, for instruction and $274,499,000, or 11%, for administrative support.

Expenditures for auxiliary enterprises, including revenue generating retail and business services such as parking lots, book stores, and food service, are $367,803,300, or 15% of the total. Plant Fund expenditures, which generally include capital costs, are $393,991,800, or 16% of the total. The remaining $184,909,900 is for debt service.

Table 7

Community Colleges - FY 2015 Budgeted Expenditures

General/Restricted Funds	Total	% of Total
Instruction	$557,926,200	22%
Public Service	9,913,200	0%
Academic Support	136,299,100	5%
Student Services	188,031,400	8%
Administrative Support	274,499,000	11%
Operation & Maintenance	115,875,900	5%
Scholarships/Grants	159,845,700	6%
Contingency	113,075,100	5%
Subtotal	**$1,555,465,600**	62%
Auxiliary Enterprises Fund	$ 367,803,300	15%
Plant Fund	393,991,800	16%
Debt Service	184,909,900	7%
Total	**$ 2,502,170,600**	**100%**