

# ARIZONA STATE SENATE

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45TH LEGISLATURE  
FIRST REGULAR SESSION

## MINUTES OF COMMITTEE ON APPROPRIATIONS

**DATE:** January 23, 2001

**TIME:** 8:00 a.m.

**ROOM:** 109

**CHAIRMAN:** Senator Solomon

**VICE CHAIRMAN:** Senator Bee

**ANALYST:** Deborah Johnston

**COMMITTEE  
SECRETARY:** Melissa C. Upshaw

**INTERNS:** Timothy Bowers and Julie Myers

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### ATTENDANCE

### BILLS

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<u>Committee Members</u>	<u>Pr</u>	<u>Ab</u>	<u>Ex</u>	<u>Bill Number</u>	<u>Disposition</u>
Senator Arzberger	X			1071	DP
Senator Cirillo	X				
Senator Guenther	X				
Senator Hamilton	X				
Senator Hellon	X				
Senator Martin	X				
Senator Mitchell	X				
Senator Nichols	X				
Senator Rios	X				
Senator Verkamp	X				
Senator Bee, Vice Chairman	X				
Senator Solomon, Chairman	X				

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### GOVERNOR'S APPOINTMENTS

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## **Tape 1, Side A**

Chairman Solomon called the meeting to order at 8:02 a.m. and attendance was noted.

Attendees Sign in sheet (Attachment A)

### **APPROVAL OF MINUTES**

There were no minutes for approval.

### **CONSIDERATION FOR BILLS**

#### **S.B. 1071 - appropriations; named claimants - DO PASS**

The bill appropriates approximately \$298,000 from the state general fund and approximately \$380,000 from other funds to the Department of Administration (DOA) for the payment of claims made against several state institutions.

Senator Solomon said this is a bill that is introduced every year by the Legislature. There were no questions asked or presentations made.

**Senator Bee moved S.B. 1071 with a DO PASS recommendation. The motion CARRIED with a roll call vote of 8-0-4. (Attachment #1)**

### **BUDGET PRESENTATION ON THE UNIVERSITIES**

**Lorenzo Martinez, Budget Analyst, Joint Legislative Budget Committee (JLBC)**, distributed handouts entitled *FY 2002 - FY 2003 Comparison of Major Policy Issues Arizona Board of Regents* (Attachment B) dated January 18, 2001 and *FY 2002 - FY 2003 Comparison of Major Policy Issues Universities* (Attachment C) dated January 18, 2001.

Mr. Martinez said the Board of Regents has jurisdiction over the three Arizona public Universities, Arizona State University (ASU), Northern Arizona University (NAU) and the University of Arizona (U of A). Mr. Martinez covered the following policy issues for the Board of Regents:

- Student Financial Assistance (UNI - 2)
- Western Interstate Commission on Higher Education (WICHE) (UNI - 3)
- Technology & Research Initiative Fund (UNI - 3)
- Arizona Health Education System (UNI - 3)

\*Note: The page numbers in parenthesis refer to the page numbers listed in the *FY2002-FY2003 JLBC Recommendations* booklet.

In response to Senator Solomon's questions, Mr. Martinez said there is a difference in amounts between the Executive and JLBC budget because these monies represent a percentage of tax revenue that is going to be collected. The difference in the amount shown is the difference in revenue projections between JLBC's estimated revenue and the Governor's estimated revenue in the coming biennium.

Mr. Martinez said the Universities essentially receive funding from two fund sources, the state general fund and the collections fund. The collections fund receives its money from tuition and fees. The Board of Regents is authorized to allow the universities to take some of these fees for certain programs, for example, debt service on payments required for capital projects and other operational type programs. Money left over is deposited into the Collections Fund. He said these monies are typically available and have been historically appropriated for the operational budgets for the Universities. Any additional funding needs for operations are appropriated from the state general fund.

Mr. Martinez covered the following policy issues for the Universities:

- Salary Annualization (UNI - 7, 12, 15, 18, 22, & 27)
- Student Enrollment (UNI - 7, 18, 22, & 27)
- Adjustments for Tuition Collections (UNI - 8, 12, 15, 19, 23, & 27)
- New Facilities Support (UNI - 7, 12, 18, & 22)
- Adjustments for Debt Service (UNI - 23)
- Eminent Scholars Backfill (UNI - 8, 12, & 23)
- College of Business Fees (UNI - 7 & 23)
- Character Training Education (UNI - 18)
- Teratogen Information Program (UNI - 27)
- Digital Television (UNI - 8 & 24)
- Performance Measures (UNI - 2, 7, 11, 14, 18, 22 & 27)

\*Note: The page numbers in parenthesis refer to the page numbers listed in the *FY2002-FY2003 JLBC Recommendations* booklet.

Referencing Student Enrollment, Mr. Martinez said Senator Cirillo had stated this is the "main driver" of university funding needs. He explained that student enrollment is based on a comparison of 3-year rolling weighted averages from year to year, which gives them the enrollment projection for the coming year.

Mr. Martinez referenced the table on page 2 of Attachment B, *Arizona Universities Full Time Equivalent (FTE) Student Enrollment*, the enrollment numbers for each university campus. He said what JLBC has seen in the current year, fiscal year 2001, relative to what was funded, is a slight decline in student enrollment.

Mr. Martinez added that Senator Cirillo made a good observation, referring to the \$88,000 funded under FY 2001. He said if the 92,000 FTE's are reduced by about 5,000, that would be lower than the funded amount. He said JLBC does not show any numbers for the ASU East and West campuses because they are both relatively new campuses. He explained that there is another formula attached to student enrollment. This formula is known as the 22 to 1 formula, which the main campuses for the Universities are funded on. For every 22 new students who come into the system, the formula would allocate 1.5 additional FTE's in the associated funding. Both campuses, ASU East and West, are not on this formula because they are relatively new campuses that have not attained a student enrollment of 5,000 FTE's. Therefore, funding for these campuses has been traditionally funded on a decision pack basis, meaning the Legislature would fund development for those campuses on a "stand alone" issue.

Senator Cirillo asked Mr. Martinez if he thinks this system does not "short change" campuses, because ASU East and West are probably the fastest growing, percentage wise, of all campuses in the State. Mr. Martinez said he knows that when ASU is given the opportunity to speak, this will be one of the issues they would like to see addressed. He said Senator Cirillo is correct, these are new campuses and there are new programs being implemented. The campuses are generating students, but because they are not on the 22 to 1 formula basis they are not receiving any monies for that. The program development at these campuses has been on a "stand alone" issue type funding by the Legislature.

Senator Cirillo said he could understand that it is done slightly differently because the campuses are just coming on board, but the way that it is done produces a good result.

In response to Senator Cirillo's comments, Mr. Martinez said currently it would require the Legislature to fund any new programs that would come online as a policy issue, as opposed to just funding it on a formula basis. He said that the new campuses have certain startup costs that the formula, by itself, would not take into account. Therefore, even if they were on the formula, sufficient monies would probably not be generated in order for these new programs to be implemented.

Senator Cirillo said he would like to give the university presidents an opportunity to speak on this issue.

In referencing page 1 of Attachment B, the Main Comparison, Mr. Martinez said a reduction in enrollment is anticipated. In FY 2002, there is a reduction of \$2.6 million in the budget, however, there is a \$1.8 million increase in the second year of the biennium because enrollment is anticipated to increase.

To answer Senator Solomon's question, Mr. Martinez said that the Executive office decided to make the adjustment in the first year of the biennium and not the second year, therefore, it stays "flat" over the biennium. He pointed out that under the JLBC scenario, even though there have been adjustments made for the second year, JLBC could come back to make funding adjustments if the enrollment is not as predicted.

Mr. Martinez continued with his presentation on the Adjustments for Tuition Collections. He said there is a footnote in the appropriations bill that if the Collections Fund generates more than is appropriated, that footnote allows the Universities to spend additional monies. He said the JLBC budget reflects that they generate additional monies in their base year of FY 2001.

With regard to the digital television conversion, Senator Solomon asked Mr. Martinez if the non-appropriated funds issue would be addressed at the next Joint Committee on Capital Review (JCCR) meeting. Mr. Martinez said the capital budget would be presented to JCCR, noting that the meeting has not been scheduled yet.

Senator Solomon thanked Mr. Martinez for his presentation.

**Jeff Young, Budget Analyst, Office of Strategic Planning & Budgeting (OSPB)**, thanked the Committee for the opportunity to speak. He said he would be covering three issues that are outlined on his handout entitled *Arizona University System, FY2002/2003 Budget Recommendation Select Policy Issues* (Attachment D) dated January 23, 2001.

The three issues covered by Mr. Young are as follows:

- Enrollment Growth Funding for FY 2003
- Fund Adjustments for Lower Collections at NAU
- Fund Adjustments for Debt Service at U of A

Mr. Young said OSPB is recommending enrollment funding for the Universities to be held "flat" in FY 2003, as indicated by Mr. Martinez. OSPB is addressing this as an issue because they think it would be best left for next year when the Legislature can more accurately review enrollment counts.

Senator Solomon asked, "why the inconsistency in the way we deal with the biennial budget?"

Based on a 3-year rolling weighted average, Mr. Young indicated the following percentages for enrollment funding for FY 2002: 25 percent is based on last year's enrollment, 50 percent is based on this year's enrollment, and 25 percent is based on the projection of next year's enrollment. He said this gives them a good idea of what we are going to have for FY 2002. However, because of the way the average is weighted in the off year of the biennium, 75 percent of the dollar amount is based on projections. Last year, he said the Universities' budget request was almost unilaterally lower than expected in enrollment, therefore, the Universities had a higher appropriation than what they really should have received.

Mr. Young said in the current year of FY 2001 the State is currently funding enrollment to the amount of about \$5 million over what should be funded for students that do not exist at the Universities. He said OSPB put this in as a "place holder" in an effort to urge the Committee next year to come back and address the enrollment issue.

Senator Cirillo pointed out that the Department of Corrections and the Department of Economic Security are also based on "flat" projections for the second year out. He said they could end up convincing themselves to do away with biennial budgeting if this discussion continues, which he does not support doing. He said biennial budgeting was a step forward and that there are some problems in trying to estimate 30 months out, but to pick one budget out and treat it differently is not appropriate.

Senator Solomon said she agrees with Senator Cirillo and apologized for misunderstanding Senator Cirillo's point of discussion.

Mr. Young said he believes that last year OSPB reviewed those budgets mentioned and adjusted the enrollment or inmate figures accordingly, which they did not do with the universities last year.

Senator Solomon said this is simply a policy issue that the Committee will have to discuss along with the Governor.

In reference to OSPB's comments about decreasing enrollment at NAU, Senator Verkamp said Mr. Young may be causing a little confusion, but he is sure NAU will clarify. Senator Verkamp said what is being talked about is the student mix versus the other two universities. He pointed out that NAU has outreach programs to all the communities in Arizona, which are composed of part-time students, therefore, NAU does not equate to full-time students like the regular on-campus students at the other two Universities. The mix of students from out-of-state is also different at NAU. NAU emphasizes in-state students and tries to recruit more in-state students this causes their tuition to

go down because NAU is not recruiting the out-of-state students. He asked Mr. Young if this is a legitimate comment and asked if he could further comment on this.

Mr. Young said Senator Verkamp's comment is legitimate and his point is well taken. He said the point that he was making was that the current in-state and out-of-state mix is projected to be less than what it currently is.

Senator Verkamp said he does not think NAU would agree with Mr. Young on his point and that he would like to have NAU testify on this.

Senator Solomon thanked Mr. Young for his presentation and said the Committee will hear from him again on his presentation for the community colleges.

**Dr. Linda Blessing, Executive Director, Arizona Board of Regents**, recognized Regent Mary Shebaria who was present and gave brief remarks on behalf of the Board. Dr. Blessing covered the following three issues for the Board: 1) Proposition 301, 2) Salaries and Building Renewal, two of the Boards' top priorities for the budget this year, and 3) WICHE that is part of the central office budget.

Senator Nichols expressed his appreciation to Dr. Blessing for her comparisons, particularly with respect to salaries. He commented that as small progress is made in education funding, they should not be entrapped by educational triumphalism and feel that they have solved the problem. He said he thinks the Governor is the one who admitted that, with Proposition 301, we went from 48<sup>th</sup> to 44<sup>th</sup> in terms of K-12 education funding. He said 44<sup>th</sup> is not something to aspire to. He asked Dr. Blessing if she could give the Committee a projection as to where we will be at the end of two years given the increased salaries in our comparison universities. Will we be at 50 percent, more or less?

Dr. Blessing said Senator Nichols' questions are well posed because the Board continues to strive to get to that 50<sup>th</sup> percentile, but in the meantime, their peer institutions continue to give salary increases on the average of 3 percent to 5 percent a year, so the State continues to "lag." She said the way the Board presented the picture was to calculate the amount to get to the 50<sup>th</sup> percentile and also an amount to "keep up" during those years. She indicated the amount to catch up to the 50<sup>th</sup> percentile would be about \$64 million over the two years. The bar is being raised, as they speak, and if peer institutions continue to raise salaries as expected, then that would be more than approximately \$75 million. She said the State continues to "slip" and the numbers are sizeable.

Senator Nichols asked if the 50<sup>th</sup> percentile was an adequate goal or should we be striving for a higher goal for education in all institutions? Dr. Blessing said the Board has set the 50<sup>th</sup> percentile as a goal, but in response to the Joint Legislative Committee working on salaries, the Board recalculated based on 95 percent of that number. She pointed out that the Universities do have some special problems in certain target areas, and the Board is requesting a special market adjustment this year, \$10 million in each of the years of the biennium to target those special problems. She stated that the rest of the salary systems have enjoyed some special market adjustments noting that the name is sometimes called classification maintenance review (CMR) money, but the Universities have none. Therefore, there are some special areas, for example the Information Technology professionals, where the Board does think above the 50<sup>th</sup> percentile would make sense because of turnover and difficulty in recruiting.

Senator Nichols said that currently they seem to aspire to be average and that he would hope at some point the State could move beyond that.

In response to the comments made by Senator Nichols and Dr. Blessing, Senator Solomon said that the legislative budget this year includes the CMR's in order for the Universities to take care of some of the needs previously mentioned.

**Dr. Peter Likins, U of A President**, expressed his appreciation to the Committee for the privilege of testimony and welcomed new Senate and Committee members. He also thanked the people of the State for passing Proposition 301. He said the passage of Proposition 301 has given them hope and belief that the people of this State understand what is being done in the Universities. The educational institutions are prepared to carry that extra burden that will enable them to do their job and ultimately make investments yield a positive return to society. As mentioned by Dr. Blessing, he said Proposition 301 enables the Universities to do some very important things, but there are statutory limitations on the flexibility with which they can use those funds. He said a number of decision packets request that a part of the budget supplemental last October be removed from the Legislature's consideration. Before the availability of sales tax revenues was known, he said the proposed expenditures that were specifically focused on stimulating Arizona's capacity to compete in the new economy can now be handled through the 301 funds. He pointed out that each of the three Universities have been assigned certain areas of science and technology in which they are expected to invest these sales tax revenues. In U of A's case, it is mild technology, information technology, optics, and water. He said these four areas are focused upon to make investments yield a return to the larger society. However, U of A cannot use those dollars to deal with the building and renewal requirements that they must meet in order to sustain the assets of capital investments in their institutions. He said they are not able to use these dollars for faculty compensation, information technology workers and compensation. Therefore, they are turning to the Legislature with a sense of reliance to help U of A meet those needs. He said the Executive and JLBC budgets represent a genuine effort to respond to U of A's critical needs, and are conscious of the fact that both of these budgets make different projections of revenues. Dr. Likins stated that the JLBC budget, in terms of its salary increments of 5 percent a year for two years is far superior to anything U of A has seen in a very long time. He expressed U of A's gratitude to the Legislature for this.

In the last biennium, Dr. Likins said U of A looked at 2 percent a year on salaries and 23 percent of the building renewal formula, and the consequences of these numbers for the Universities have been devastating over the course of the last two years. U of A first addressed the crisis they are experiencing in efforts to retain their most prominent faculty. He asked the Committee to understand that it is a controversial matter with any university to decide to go public when they compete for faculty. He indicated that 2 out of every 3 faculty members that they strive to retain in their university are being lost. The faculty is being lost to other institutions that pay 40 percent more than the U of A is paying their faculty.

With the CMR monies that are in the JLBC budget, Dr. Likins said that although the amount is not what they asked for, it shows that there is a genuine recognition of the problem and an effort to respond to that problem. He said he understands that the Legislature has other needs and has to balance all kinds of conflicting demands, but to simply show the Universities that they care about what they do, he said it means so much. It is also critical to be able to say that the Legislature has shifted its values, it understands the importance of education, the future of this State, and is striving at all levels of education to meet the needs.

To answer Senator Nichols' question, Dr. Likins said if the Universities hold the ground that the Legislature has established in the JLBC budget, the Universities will hold their position in competition with others around the country. He said that a tiny increment might be picked up, with the rest of the country being at 4.5 percent and the State's universities being at 5 percent. With a little bit of the CMR money, it will create some confidence that they are really beginning to address the problem in the State of Arizona.

Dr. Likins said that they are also concerned about their instructional staff being represented by graduate students. He said it is important to understand that it takes a compliment of well-advanced people to present to university undergraduates the learning experiences they need in order to achieve their goals. Over time as they deal with these salary pressures, U of A finds themselves repeatedly hanging on to a professor by either increasing his salary, which requires reallocating money, thereby reducing the size of their faculty, or lose the professor in the competitive market place. In recent years, he indicated that \$13 million was reallocated in order to stay in competition for faculty salaries. In the business colleges, he said the process of reallocation has taken them from a 115 faculty down to 82, which they have gradually tried to build back up. As they lose members of faculty, they do rely increasingly on temporary faculty. He pointed out that their top priority in their request for funds beyond those allocated in the JLBC budget is the response to their decision package, which relates to the increasing graduate teaching workforce in order to reduce the workload.

Dr. Likins said U of A is also anxious to continue their collaboration with their community college, Pima College, as they attempt to build on a Pima College campus that is emerging in the Northwest portion of the City of Tucson. The U of A is anxious to secure the Legislature's support for one time funding of a facility that U of A proposes to build on the Pima College campus in order to allow their university to have a pressure relief valve and also to build programs in concert with Pima. Dr. Likins said this expansion is critical as he sets the stage for next year's budget at U of A. We must recognize that a very important part of what they do at U of A is associated with the Arizona Health Sciences, the colleges of medicine, pharmacy, public health and nursing. He informed the Committee that Jim Dalen, Vice President of the Health Sciences and Dean of the College of Medicine was present to address the budget issues in that domain and would appreciate the Committee's approval to have Dr. Dalen step forward and offer his contributions.

To the State's three University Presidents present, Senator Solomon recited a statement President Gnant had made a year or two years ago, that is, with what the Legislature has given the Universities, the Universities have done an absolutely incredible, amazing, and wonderful job. In fact, the State is where it is because of the work that the University Presidents, their staff and people associated with the Universities have put in. She expressed hope that this will usher in a new era of support for education at all levels including higher education.

Dr. Likins thanked Senator Solomon for her comments and said that as one who has spent most of his career in other parts of this country, he assures her that this is an astonishingly cost effective operation. He said the system in the State of Arizona is amazing because of what it accomplishes with the modest funding that it receives.

**Dr. Jim Dalen, Dean, Vice President, U of A Medical School,** said this year will be his 13<sup>th</sup> and final year representing the Arizona Health Sciences Center because he will be retiring in June. Dr. Dalen briefed the Committee on some of the new programs and their successes that the Legislature has supported over the last few years, programs such as the Arizona Cancer Center, the rural health professions, the telemedicine program, and the liver institute. He hopes that the

Legislature will look at two new programs, integrated medicine and the Phoenix office of the Arizona Health Sciences Center. In summary, he said the Legislature has treated the Health Sciences Center very well over its 35 years of existence.

Senator Hellon asked Dr. Dalen if there is any type of program or plan to address the critical nursing shortage that the State now has. Dr. Dalen said it is not always a shortage of nurses, but a shortage of nurses who want to practice in hospitals at this time.

Senator Nichols added that he thinks there is a shortage of dentists nationally. Recently, the University of Las Vegas, with the support of the Nevada Legislature, decided to start a new dental school. Senator Nichols said the legislator there who was responsible for making this happen suggested that they would make dental spaces available should the State decide to start one as well, a quasi WICHE kind of relationship.

Dr. Dalen said he does not think the shortage of dentists is very great in this State, but there is a probable need. He pointed out that dental schools are expensive. Should one be started, he said it would be wonderful and the WICHE program would be the best thing for the State.

Senator Cirillo commended Dr. Dalen for his efforts and believes Dr. Dalen gives the Legislature too much credit for some of the new programs that have been established. He said if the State did not have someone like Dr. Dalen at U of A, these programs would not have been as successful as they are now. He thanked Dr. Dalen for being forward looking, recognizing that these were great new initiatives and for making them successful.

Senator Rios said this gives him a good opportunity to get his question answered that he asked a legislative liaison a year ago. He said Dr. Dalen runs a great facility, the U of A Hospital, that people are proud of, but one of the concerns he has is the standard practice the hospital uses when patients are brought in on an emergency basis. As the patient is brought in, they are assigned a pseudonym, even if the patient's real name is known. He said he understands this is used for the hospitals to start treating the patient, but what about patients who have been there for a day or two? Loved ones out of town or out of state are being told they have no one admitted by the name they are calling for. He said this was the case a year ago when his brother-in-law was hit by a car, and his family tried to locate him by calling every hospital in Tucson. A couple of days later they found his brother-in-law admitted at the U of A Hospital. He questioned, "how soon after the patient is admitted, is the patient's real name provided?" He asked if another full-time clerk is needed to provide this information.

In response, Dr. Dalen said it is not a question of "man power." The issue tends to be trauma and violence. In fact, when patients come in, their name is unknown and treatment has to be started immediately. Sometimes the system does not work, then they have to go through other means to find out the patient's name and sometimes there is an unnecessary delay. Dr. Dalen does not understand how the situation with his brother-in-law could have happened and says it was clearly a mistake. He informed Senator Rios that this would be worked on.

Senator Solomon informed the Committee that her first Arizona Telemedicine Advisory Council meeting was the most exciting meeting she has attended in a very long time. She noted that Senator Cirillo has been a member of the Council for some time.

In response to the members' comments, Dr. Dalen said that the Center should not take all the credit because the Engineering Department at the main U of A campus has been very helpful with their expertise and that they have worked closely with them.

**Dr. Lattie Coor, President of ASU**, said he is pleased to be present especially with the spirit of Senator Solomon's remarks. Dr. Coor stated that this is his 12<sup>th</sup> year as President of ASU. He underscores that this budget give them the opportunity to look to the next several years as a decade of promise for bringing the Arizona Universities into the rightful place for our State and for our future.

Dr. Coor thanked the Committee and the citizens of Arizona for the passage of Proposition 301. As mentioned by Dr. Blessing, Dr. Coor said Proposition 301 gives the Arizona Board of Regents and the three universities a chance to focus actively on directing workforce development, and working toward the creation of an economy that will serve the State over the next two to three decades.

Dr. Coor briefed the Committee on three topics: salaries, building renewal, and campuses.

Regarding salaries, Dr. Coor said they must be viewed in three ways. Dr. Coor said in the document provided, entitled *ASU Funding Priorities* (Attachment E), they tried to chronicle that people received about 34 percent more when they moved somewhere else. Therefore, the absolute salary has been very significant, particularly in fields like computer science, and their staff positions in information technology. Many of them go to Motorola, American Express, Salt River Project (SRP), and Arizona Public Service (APS). He added that beyond the absolute amount, there are two other factors that are important. One is the consistency with which talented individuals can expect the universities in this State to pay attention over a long period of time. He said the halting nature of salaries over the decade has become more corrosive. Those who deal with extended salaries know it is the ability year-in and year-out to reward that makes the long-term effect on a salary. The other is the attitude. He said it has been painful in the last few years to hear comments that suggest that this is not an important issue. For this alone, he thanked the Committee because faculty and staff are hearing a different message today. He urged the Committee to stay the course for this biennium on salaries that are extraordinarily important to them.

Referring to page 3 of Attachment E, Building Renewal, Dr. Coor said this issue is also important to ASU. Consistency over time is what enables ASU to do its job. Referencing the chart on Attachment E, he said the chart is a rather lean formula, looking at what it takes the Universities to keep their buildings up-to-date. This was funded below the 50<sup>th</sup> percentile over time. Referring to the chart, he said three years ago the building renewal has been funded at the 100 percentile. He said while the Legislature rarely heard the university comment this is their "bedrock." He asked the Committee to remember that Arizona does not fund their new buildings on the main campuses, as most states do. The universities fund them out of bonded indebtedness, which they retire from their own internal resources, relying heavily on student tuition, but Arizona has a responsibility to enable the universities to keep up-to-date and that is why the building renewal formula is so important. He urged the Committee to stay the course, and thanked the Committee for the 100 percent building renewal formula that is in JLBC's budget recommendation.

Referencing the map on page 4 of Attachment E, Dr. Coor said ASU is a metropolitan university geographically distributed through three anchor campuses, Main, East, and West. The "dots" on the map represent ASU's extended campuses: the ASU downtown center, electronic distribution,

the web, television, audio video, and other sites around the valley. He said ASU's unduplicated head count to date is 50,000. The Governor's Task Force accurately predicts that by the year 2015 that number will be 75,000. He said that is daunting, but ASU knows that they have the architecture. He said ASU knows they can provide Arizona with a different way of handling growth as they did in 1974 when ASU Main doubled in size. When ASU main campuses get new students they have the 22 to 1 formula to bring it to that level, but new campuses do not. He urged the Committee to carefully consider two related issues. First, the correction of a technical impact of the policy about new students and their expenditure authority. It is, between ASU West and East, it is a \$1.7 million problem. The enrollment increase does not get accurately reflected in the expenditure authority by that amount. Second, even though ASU West has new program development, he wants to focus on ASU East. Fifteen years ago when ASU West was developed, there was some front funding that allowed the faculty to be in place, then students could come to bring it up to what would be a proper balance. This balance is called a base budget that has staff at ASU West funded to take it up to 5,000 FTE's. ASU West currently has about 3,800 FTE's. Therefore, major staff additions at ASU West are not needed. He noted that there are some program issues, but those are separate. ASU East never got the fundamental funding. He said with the provision of Proposition 301, the build out of ASU West, which is underway, can take it up to 10,000 students. The build out at ASU East is primarily renovation of existing former military housing that will take it up to 10,000. However, there is a significant gap because there is no way without front funding with no 22 to 1 that new students arriving at ASU East can be taken care of. He said the current enrollment at ASU East is 1,939; it will grow to 2,700 next year and 3,400 the following year. The new campuses are designed to absorb the enrollment increase, ASU East particularly. Now with its technology emphasis, the new teaching factory that Intel provided is drawing more students. Therefore, he respectfully asked the Committee for their help both in crafting a policy that allows ASU East to become part of that larger mainstream and ASU East and ASU West to become part of the future. Secondly, the appropriation, as seen in the handout, meets just the basic enrollment increase of \$6.2 million in FY 2002 and \$3.1 million in FY 2003.

Senator Solomon asked Dr. Coor whether or not the State could expect the number of new students to anticipate if we do not move more programs out to ASU East.

Dr. Coor said this is a good question, ASU East began by two schools from Main moving there. The members need to understand, in terms of the work they have to do with budgets, the dollars that were appropriated to ASU Main to cover those students were then reallocated to ASU East. ASU Main, East and West have watertight budget compartments. The school of Agri-Business and the School of Technology were the schools that moved to ASU East. Since that time, they have additional human nutrition and exercise science programs. He said that ASU Provost Charles Backus has done a masterful job talking with faculty members and department heads of these programs that might move. He said whenever these programs move, the monies move with them. He said these programs will experience some growth but it is the basic growth, whether or not any new programs move there, that really drive this.

Senator Solomon thanked Dr. Coor for his budget presentation.

**Dr. Clara Lovett, President of NAU**, informed members of the Committee that NAU's presentation was in electronic form, CD-ROM, but for those members who did not bring their laptops, the materials could be viewed in their offices after the hearing. The shorter version in print form, entitled *Northern Arizona University, This is NAU at a glance, based upon budget needs versus performance outcomes* (Attachment F) was distributed for their reference. She said NAU finds the CD format very convenient, and it is very similar to what they have started using in the

past two years, for the purpose of recruiting prospective students, and alerting citizens and prospective donors about the particular features of NAU.

Dr. Lovett joins her colleagues by saying that they feel extremely good about the support for higher education in this State and for education generally. All sectors of education in Arizona will benefit from the consequences of the passage of Proposition 301, and in the case of the Universities they will be able to improve their capacity to do research and strengthen the economic base of the State. Their capacity to produce a trained workforce at various levels can play a constructive role in the new economy. Yesterday, in a pre-budget hearing session with the House Appropriations Committee, Regent Jack Jewitt of Tucson remarked that this is a very good time to be in Arizona and to participate in building a stronger education system. She said that is true at NAU and is pleased to be a part of that process.

In the case of NAU, the distinctive contributions during Dr. Lovett's tenure as President have been in three areas: 1) the academic improvement of a very unique undergraduate residential campus; 2) Reaching out to rural Arizona beyond their home region of Flagstaff; and 3) Finding special niches for research and graduate studies. A historically important area for NAU is the preparation of a disproportionate number of educators for K-12 schools. The other more recent, success has been in the area of environmental sciences and bio-sciences.

Dr. Lovett expressed NAU's concern over salaries, especially faculty salaries. She said she would not need to repeat what Dr. Coor and Dr. Likins said so eloquently. They are all trying to catch up with peer institutions with which they compete for faculty talent and for professional staff talent. NAU shares their issues in this regard of not being competitive with their peers, but in the case of NAU, the issue tends to be aggravated by a unique condition. Most of their faculty out at the Mountain campus live there in Flagstaff and have the dubious distinction of living in a beautiful community, which has the highest cost of living in this State. So NAU, the institution that has traditionally the lowest salary structure is also handicapped by the fact that living in that community is more expensive than living in most other places in the State. To compound the problem, when NAU recruits a staff position, typically the person that they are trying to attract is one-half of professional couples. So a question arises about professional opportunities for partners when they recruit. She said that in this area NAU is at a distinct disadvantage to those institutions in the metropolitan areas, because there are fewer opportunities for partners and spouses in a small community. For this reason, NAU is especially grateful for the salary recommendation that is proposed for the next biennium.

Dr. Lovett said the same applies for the recommendation concerning building renewal. NAU shares with the other two institutions the challenge of maintaining a very large portfolio of physical assets. In their case, NAU has unique problems related to location and the chronology of the development of the Mountain campus. She said full funding of building renewal would be a major accomplishment in itself, and they are grateful to the Legislature for recommending that.

Dr. Lovett said, as Dr. Coor also pointed out the level of support is important, but consistency over time is more important. In the last biennium when NAU was funded at a 23 percent formula, NAU had to stop some projects that had been initiated under the assumption that they would receive 50 percent or more of funding. One such project at the Mountain campus consists of redoing the fire alarm system, which is over 30 years old and no longer meets the fire department codes. She indicated that this project alone called for about \$2.5 million of expenditure. When NAU found themselves at 23 percent funding for building renewal, it meant that they had to either complete that project by using all of their money on that one project or they had to neglect it and only

complete half. She said even when building renewal is fully funded, they have conditions at the Mountain campus that requires special and drastic remedies. The Mountain campus now has about \$150 million worth of infrastructure repair that needs to be done just to maintain it and bring it back to a good level of functionality. Inadequate funding of building renewal over many years is one of the reasons they have massive infrastructure problems.

Dr. Lovett stated that the second factor unique to the Mountain campus that is not shared by others throughout the State is the climate conditions. Only recently in the construction industry have experts become really aware of what that means, particularly the impact of ultraviolet rays and the frequent salt and freeze cycles. It is not the cold weather that is the problem, it is rather the peculiar cycles that are typical in Arizona at 7,000 feet. Though she is not an expert in this area, she said exposure to the changing condition results in corrosion of the buildings year after year.

The Mountain campus' third unique factor is the chronological history of the campus that explains the very large problem that is existing. Dr. Lovett explained that the Mountain campus grew most dramatically during the late 1960's and early 1970's. During this time most of NAU's residence halls and academic buildings in the central and southern part of the campus were built. Dr. Lovett commented that this means that their facilities are all aging at the same time, not distributed evenly over time because they were not built evenly over time. Also at that time, in the 60' and early 70's contracts awarded under the state bidding process were awarded on the basis of construction criteria and use of materials that were generally thought to be appropriate in the State of Arizona, meaning that largely NAU did not take into account the climate conditions that are very different at that location. They have buildings that do not have tanks to protect the windows, doors or the sidewalks from the effects of weather. They also have a lot of infrastructure that cannot be seen when walking through the NAU campus because they are hidden underground. Most of the telecommunications infrastructure, heating, AC, waste and sewer are underground as they should be. At the beginning of the fall semester, the first week of class, they had to evacuate and close three of their major academic buildings at the South campus. The three buildings together enroll a large number of students. The faculty and staff went home, and the students did not have class for several days. She said this happened because of a power outage in the three buildings. What was the power outage about? The rainwater going through the cracks in sidewalks around those buildings had reached the insulation around power cables underground and over time it corroded to cause a short. She said it was a simple problem, but it was enough to shut them down for several days.

Dr. Lovett said NAU has made tremendous academic progress since 1993 and 1994 at the Mountain campus. They have maintained and increased the quality of their undergraduate student body under difficult competitive conditions, a time in this country's and state's history when the percentage of students who attend a residential campus in a rural setting is declining. NAU has the highest GPA for beginning freshmen of any of the universities in the state, and NAU offers a unique 3-year baccalaureate degree program that allows talented students to move through the system quickly. These academic achievements could be continued and sustained over the next few years, but they will not be unless some of the serious infrastructure problems are addressed. For this reason, NAU is asking that the Legislature consider a special appropriation for NAU's infrastructure that would help them produce a revenue stream that would allow them to take on more debt so that they can make the improvements in years to come. She said again there is urgency about this that she said she must admit that she was not aware of four years ago.

Dr. Lovett said the figures do not support statements that have been made about enrollment at NAU decreasing. She reminded the Committee that NAU enrollment consists not only of Mountain campus enrollment, but enrollment at other locations throughout the State of Arizona. While it is a fact that headcount and FTE enrollment at the Mountain campus has fluctuated slightly over the last six years, the trend in the statewide program has been steadily increasing. It is the overall enrollment that should be looked at because that is what drives the formula funding of 22 to 1, and it is also what drives their tuition collections. She said decreasing enrollment is not happening at NAU. The funding system both on the 22 to 1 formula and the 3-year cycle for funding is penalizing an institution that serves a large number of Arizona residents. She indicated that 85 percent of NAU's students are Arizona residents. The program penalizes institutions that have had the student body change in recent years, to fewer full-time and more part-time students. That second change has been a direct result of the expansion of their statewide program, partnerships with the Community Colleges. While at the Mountain campus the average age of enrolled students is under 23 years old, statewide there is a different demographic profile. Dr. Lovett said all the enrolled students, in the statewide program, are either upper classmen, undergraduates or master students. They are all typically over 30 years of age, working adults, parents, and people who receive their degree on a part time basis. This means that NAU is at a disadvantage in terms of how the 22 to 1 formula works, not necessarily at a disadvantage with regard to collections because students pay the same tuition based on how many credits they take.

Senator Cirillo agrees with Dr. Lovett's points on the 22 to 1 formula, he asked Dr. Lovett whether or not the 22 to 1 formula is appropriate for distance learning as opposed to learning on campus. Dr. Lovett said some discussion has taken place within the Arizona Board of Regents, and also remembers previous discussions she had with members of the Legislature. She said her personal opinion is that the entire funding formula system needs to be reevaluated. Most Arizona Universities have been involved in distance learning using various technologies that are in initial stages to provide instruction and, the investment is not leading them to lower costs. In fact, in many cases the up front investment in technology, training of personnel and so on may be higher per student. But after you have done it for a few years, the cost structure does change, and she definitely thinks that this should be looked at. However, if NAU is looked at specifically, the student pays the same tuition, but in terms of support they receive under the 22 to 1 formula, they have received fewer dollars per FTE student than other institutions. The other thing that they find interesting to look at is the recently released Auditor General's report on the Universities, which shows how inappropriately over time the three year calculations of the 22 to 1 formula have been applied. In their case, NAU is dealing with the potential inequity of how OSPB is calculating their 22 to 1 formula for the next biennium. She stated that the Auditor General's report has indicated that NAU has been at a disadvantage, over the last several years, in the calculation. In years when enrollment was growing the formula was not usually fully funded, but in years when the enrollment was flat or declining, the full amount was deducted from the operating budget. Therefore, over time that causes a distortion in the formula itself.

Senator Cirillo suggested that it might be appropriate to re-look at the whole formula and how it is done during the Interim, because they are unable to do it now in the middle of the budget process.

Senator Solomon said she made some similar notes and agrees with Senator Cirillo's comments that it is time to reevaluate the 22 to 1 formula.

Senator Verkamp noted that several years ago the Arizona Board of Regents directed the three state universities to project how they were going to handle future enrollment growth. NAU was going to develop the distance learning aspect of the program. NAU did not go in some direction

that was not visualized by the Board of Regents or the Legislature. He asked Dr. Lovett what her comments were on this.

Dr. Lovett said that is correct; NAU has progressed in the rural areas of the State, except for Cochise County, which is served by the branch campus of U of A. NAU has been responsible for working with the rural community colleges throughout the rest of the State. She said NAU has more than met their goals in this area. Currently in this semester, there are more than 3,000 students enrolled in baccalaureate or masters programs at the NAU rural sites, reiterating that these students are older students, place bound, and time bound. They simply would not have access to university level degrees if NAU did not effectively work with the Community Colleges in using technology for distance learning. They have absolutely met the obligations placed upon them by the Board of Regents and the Legislature. During her tenure as President of NAU, she said there was only one year in the legislative budget process where an appropriation was given to NAU specifically to increase its distance learning ability to network the rural communities. Everything else they have done was funded on 22 to 1 monies and essentially came out of the same modest operating base that they have.

Senator Verkamp explained an incident that occurred several years ago in Kingman that demonstrates what the problem is. He said he was explaining to a Rotary club, this concept of distance learning. And after the meeting, a waitress with tears in her eyes asked him "Mr. Verkamp, do you really think this kind of system is going to be implemented in Arizona?" He answered yes, the legislature is working on it and she said she is a single parent who lives in Kingman and she cannot afford to move to Flagstaff, Phoenix, or Tucson. If she and her kids want to get ahead, this is the only chance she has to further her education. He said he thinks there is a market, as Dr. Lovett said, for place bound people who really need this service, and NAU is trying to address this circumstance. He believes that by trying to apply formulas very strictly NAU is sometimes penalized for doing a program that is very much needed in the outlying areas of Arizona. He said it is very important for the Committee to realize that NAU is fulfilling a unique function there.

With regard to the building issues, Senator Verkamp said several years ago the Appropriations Committee members were invited to visit Flagstaff and see the tunnels and the infrastructure where some of the maintenance problems are. He said it is appalling that they have let these buildings go down hill due to weather factors all because the formula has not been funded. He said he would invite members of this Committee to visit the NAU campus in Flagstaff and see for themselves what some of the maintenance problems are. There is a tremendous backlog of problems and that is why NAU is requesting the additional money, to do some bonding in order to take care of some of these needs.

Dr. Lovett commented that NAU has extended repeated invitations to members of the Legislature to do just what Senator Verkamp is suggesting, and several of the Committee's colleagues have done so over the past couple of years. She said the snow season is really short in Flagstaff, so there would be plenty of time outside of the legislative session to make those visits.

Senator Solomon said she would appoint Senator Verkamp to organize the Committee's field trip to Flagstaff.

Senator Verkamp said that House and Senate members of the appropriations committee were invited several years ago and the turnout was not good, he wished that more people could "eye ball" the extent of the problem.

Senator Nichols commented that Dr. Lovett has emphasized the building renewal issues more than anyone else. He said the problem of salary and how we are not really catching up even if we do 5 percent was discussed with some of the witnesses earlier. He heard Dr. Lovett state that even with full funding this year and even if we were to continue full funding, the State has at least a decade of neglect to make up for. He queried whether or not the State is going to get there even with the full funding?

With regard to the salaries, Dr. Lovett said she thinks yes. She believes Dr. Coor stated after a decade of stagnation, it will be difficult to catch up. In the case of facilities at the Mountain campus, she said it is more than a decade, they have not invested enough on upkeep, let alone upgrading, to make sure that the facilities fit educational needs. If full funding of building renewal had been consistent over the last decade it would have enabled NAU to buildup less of that clog, but right now they are at the point where they need to engage in a massive repair of infrastructure and renovation of buildings. First, to take care of the health and safety issues, and second, to make sure the facilities will still be available, functional and suitable for the educational needs of NAU's students down the road. She said conservatively a \$150 million backlog is needed, a figure that was verified through industry resources, and Arizona Boards of Regents staff. The backlog could only be addressed if NAU has a revenue stream to use more bonding authority and to do large amounts of renovation in the next few years.

Senator Nichols said that he would also presume that the problems, which President Lovett has so well described, are not unique to Northern Arizona. He said there is backlog of problems in all the State's higher education institutions from the point of view of building renewal. He commented that there are still miles to go before they sleep and that they have had long periods of neglect. Lastly, he asked Dr. Lovett if she was retiring in the not too distant future.

Dr. Lovett said yes, at the end of this academic, fiscal year.

Senator Nichols expressed his appreciation to Dr. Lovett on all that she has brought to the system and is saddened to hear that she made the decision to retire, for the Committee will regret her leaving.

Senator Solomon commented that as much as she enjoyed hearing from her colleagues, Doctors Coor and Likins, they were not nearly as melodious in their presentations or as soft as Dr. Lovett, and thanked Dr. Lovett for her presentation.

Senator Solomon asked the members if they would like a short recess. Members agreed.

Senator Solomon called for a short recess

Meeting reconvened at 10:30 a.m.

Senator Solomon introduced Ms. Kemmeries as her friend from many years past, the former Principal of the Tucson Unified School District.

**Carolyn Kemmeries, U of A**, spoke on behalf of U of A, alumni association board of directors and president for U of A, in that capacity she is representing all the university alumni. In addition, as Senator Solomon pointed out, she is a graduate of U of A, long-life professional educator, parent, grandparent and currently, the President of the Tucson Unified School District Governing Board.

Therefore, she has consistently committed herself to public education and supporting it as her service commitment. She said she is very happy that Proposition 301 passed, and thanked those on the Committee for supporting the Proposition. She is also pleased to see that the JLBC's dollar recommendations for the State's Universities actually exceed the Governor's recommendations, which also represents a shift in legislative priorities. She said her comments today involve some perceptions and realities, which have damaged and will continue to damage Arizona's students if they continue to go unchallenged.

The first perception is that Arizona's Universities are sub-par and cannot offer their best and brightest students the educational opportunities equal to those in states like California, Colorado, and the East Coast. She said it is very distressing to hear stories such as Chris', who she met when he was a student at University High when she was the principal. She described Chris as a brilliant young Native American, who at a very early age determined he was going to be a doctor. Chris was awarded a scholarship to U of A, but turned it down because he felt he could get a better opportunity at a school in California, where he is now in medical school. She said this disturbs her and what Chris represents is lost to them simply because that perception that the State's Universities are not on par with some of the other states. The reality is that our Arizona Universities are not able to hold on to some of their best and brightest.

Dr. Supan of the U of A recently informed her that he had lost one of his most brilliant third year Accounting Professors to the University of Illinois. While this professor was receiving about \$95,000/annually at U of A, at the University of Illinois he would be receiving \$135,000/annually, a substantially better benefit package and a reduced teaching load at the University of Illinois. In addition, two of Dr. Supan's best finance people were lost to the University of Colorado. She said this is very disturbing because U of A is ranked in the top 30 on the national rankings, and the University of Colorado is in the top 60. She said that the appeal of the 35 percent pay increase could not be denied, therefore, he has lost both of these people. His top five Management Information Systems (MIS) folks are continually being recruited by several schools and Emery was in fact offering his most senior accounting member triple what he earns at U of A. In 1989, Ms. Kemmeries indicated that out of 115 professors in the accounting department there are now 82, and yet the enrollment has increased by 25 percent.

Another perception is that Proposition 301 is now going to cover the needs of public instruction in Arizona. Ms. Kemmeries said she is delighted to hear the Committee reiterate over the morning that this is not true. What Proposition 301 has done is address the neglect of the last ten years, but with the current nationwide focus on education, Ms. Kemmeries has the fear that the State will find itself at the bottom again, while other states are pouring in their resources. She commented that this is a continued embarrassment that we continue to lose out to industries and other entities that would bring economic health to our State. It gives the Universities a perception that they are not able to deliver a top-notch education in this State. The critical role that Arizona's Universities play cannot be ignored.

Another perception that she hears is that Arizona citizens are turned off and they are abandoning public education. The reality is that over 95 percent of our young people who are school age attend public schools and that is an even higher percentage in the field of higher education. We owe it to the 95 percent of our young people to give them the opportunity to have what a topnotch education provides, because in the long run we are the beneficiaries.

Senator Cirillo commented that the tone is somewhat negative in some of the discussions about what has happened in the last ten years. He pointed out that Arizona has been the top State in

economic growth for about six or seven years now. He expressed hope that the State can get a lot better and that we should not kick ourselves around more than necessary.

Ms. Kemmeries agreed with Senator Cirillo's comments by stating that we need to take pride in what we have accomplished. There is no question that doing more with less is something we are good at in this State.

**Susan Davis, President of the ASU Parents Association**, said the association is for families of ASU students. In their membership, they have approximately 2,000 families who live in Arizona who are vitally concerned about the future of the University. She said she is delighted to be here to urge the Committee for their support for the JLBC recommendations, particularly in the areas of staff increases and full funding for the building renewal formula.

She notes that all the previous speakers have talked about the "brain drain" of faculty and staff and that is the concern that is shared by people on the campus as well. These increases are certainly a start and she would like to see the State continue to strive for excellence, their students deserve no less than that. In her view, Ms. Davis thinks the University has done a fantastic job with the resources that it has and they are encouraged to see that there will be some increases coming. She thanked the Committee for entertaining these and urged the Committee to keep up the good work by supporting these increases for this year.

**James J. Minder, ASU Parent, ASU Parents Association**, said he could add very little to what the University Presidents have already said. However, as a citizen, as a member of the Parents Association and in talking to neighbors and friends, everybody is concerned about the education in this State; otherwise, Proposition 301 would not have passed. He thanked the Committee for considering this bill, he believes it is a good start, but thinks there should be a long-term commitment. He said a "bubble" could be created from time to time by saying "this year we are going to give you a 100 percent, next year we are going to give you two percent." He said it has to be a consistent budgetary inclusion over a long period of time. As a former corporation CEO, he said one of his great costs was training new people because the State and the Universities have in fact become good training grounds for a lot of people. However, people are trained and then leave because the salaries are inadequate. He said this should be looked at very hard, especially when he is looking at a 40 percent turnover in the entire State structure. He is also a parent of an ASU student. Quality is important and if you cannot keep good faculty, you cannot have quality in the university. He believes the faculty has done a remarkable job with what they have, but this erosion through the years has become a very serious problem. He is delighted that the Committee has finally decided to take a hard look at this by deciding to raise the salaries. Mr. Minder suggested that perhaps the salaries could be made retroactive to January 1<sup>st</sup>, instead of hiring someone and telling them that they are not going to get a raise for another year. Before State taxes are reduced, he suggested that the Committee take a look at what the federal government is going to do because that will directly effect the kind of taxes the State will be able to reduce.

Senator Cirillo pointed out that over the last eight years, the record has shown that the State's revenue has continued to grow when significant tax reductions were made in this State. Mr. Minder said that is because the economy is growing. Senator Cirillo asked why the economy is growing.

Senator Solomon stated that as she and most of them in the room have supported these tax reductions, she does not think this question could be resolved at this time.

Senator Solomon noted the following were present in support of the Universities budget: **Shaun Alex Bainbridge, ASU Student Body President, representing ASU Students and Associated Students of ASU; S. Mitchell Harris, President-Elect ASU Classified Staff Council; William Hochgraef, Chairman of the ASU Alumni Association representing the ASU Alumni Association; and Paul Peterson, Executive Director, representing the Arizona Students' Association. David Landrith, Executive Vice President, Policy & Political Affairs, representing the Arizona Medical Association,** was present in support of the U of A North Campus funding integrated medical project.

## **BUDGET PRESENTATION FOR THE COMMUNITY COLLEGES**

**Bruce Groll, Budget Analyst, JLBC,** distributed a handout entitled FY 2002 - FY 2003 Comparison of Major Policy Issues State Board of Directors for Community Colleges (Attachment G) dated January 23, 2001. Mr. Groll explained that there are three funding formulas from which the community colleges receive their general fund appropriations along with significant other outside funds. The Executive office has concurred with the JLBC recommendation on these three major funding formulas: 1) Operating State Aid, 2) Capital Outlay State Aid, and 3) Equalization Aid. He said that both recommendations for FY 2002 fully fund the statutory formulas. There are differences in the second year due to the differences in estimation, JLBC uses a five-year average of Full Time Student Equivalent (FTSE) growth and that drives the two major formulas, the Operating State Aid and the Capital Outlay State Aid.

Mr. Groll highlighted the following major policy issues for the Community Colleges:

- Operating State Aid (COM - 2 & 3)
- Capital Outlay State Aid (COM - 3 & 4)
- Equalization Aid (COM - 4 & 5)
- Education "2000" Workforce Development (COM - 5 & 6)
- "Education 2000" Tribal Assistance (COM - 6 & 7)
- Lease Increase (COM - 7)
- One-Time Equipment (COM - 7)
- FY 2001 Supplemental (COM - 8)
- Dual Enrollment (COM - 8 & 9)
- Arizona Articulation Support System (COM - 9)
- Arizona Learning Systems (COM - 10)
- Other Revenue Sources (COM - 10-12)

\*Note: The page numbers in parentheses refer to the page numbers listed in the *FY2002-FY2003 JLBC Recommendations* booklet.

**Jeff Young, Budget Analyst, OSPB,** in reference to Dual Enrollment, clarified that the Executive office has done some thinking on this issue. Senator Solomon asked if this is an issue that should be addressed at this time. Mr. Young said it is more or less a budget problem.

Senator Solomon stated that the performance measures for both the universities and community colleges would be discussed in detail in Senator Hamilton's Education and Natural Resources Subcommittee. Senator Solomon apologized for giving more time to the universities and not to the community colleges. Although it is not policy to hear testimony in subcommittee hearings, Senator

Solomon said if this meeting is cut short due to time constraints, Senator Hamilton would be happy to take testimony in his subcommittee, if necessary.

Senator Nichols asked if it was correct that community college employees are not state employees. Mr. Groll answered yes. Senator Nichols said that would mean that the biennial 5 percent increase per year that has been discussed for both the universities and in another context for the state employees under the Department of Administration, does not apply to the community colleges faculty and staff. In response, Mr. Groll said that is correct.

Senator Nichols asked Mr. Groll, "how do we propose to deal with the faculty's salary or the staff's salary issue in the Community Colleges? Where does that come from?" Mr. Groll said as they just discussed, the districts or the colleges do receive a majority of their funding from the local property tax base. He referred to COM - 11 in the JLBC Recommendations booklet, Table 14. The table shows how the primary property tax levies have increased over the years and there has been a fairly significant increase in funding from all the tax revenues. To answer Senator Nichols question he said that is where they get the funding.

Senator Nichols said to focus on Pima County in Table 14 there is a primary tax levy of 34 percent. He said he would presume this is over a five-year period, so if we divide that by 5, it is running around about 6 percent per year. Mr. Groll said that is correct. Senator Nichols recalls that is about half of what the Community Colleges get. Mr. Groll said that is correct.

Senator Nichols said half of that would be a 3 percent increase and that would be for everything that they are doing, but assuming they proportion that equally, that could presumably lead to a 3 percent increase in faculty or staff salaries. He asked Mr. Groll if this is correct. Mr. Groll said while the community college faculty staff are employees of the district in the county that they serve in, the funding formula for Operating State Aid and the Capital Outlay State Aid are specifically for district operations. These monies are used for salaries and system operations. He referred to Table 13, in the booklet to see how that has changed in the 5-year period that is about 30 percent. So that has pretty much made up the difference Senator Nichols is referring to, over the 5-year period in conjunction with the increases in property taxes, but there is nothing in the JLBC budget that goes beyond that to speak to specific salaries for the Community Colleges.

Senator Nichols said as he recalls when he first came into the Legislature, around the mid-90's, he recalls a formula for the community colleges, a 30 percent increase each year. He said it seems to him that we have gotten away from that formula as we did with K-12. He asked Mr. Groll if he was correct. Mr. Groll said that was a formula before his time and there has not been anything in place since that reported to fund the Community Colleges at a fixed percentage each year.

Senator Nichols said he is just trying to establish if there is enough flexibility in this budget for their faculty and staff to get an equivalent increase as to what we are trying to do for State employees in this budget.

**Jeff Young, Budget Analyst, OSPB**, said the Executive is largely in concurrence with the JLBC recommendation for the community colleges. Mr. Young distributed a handout entitled *State Board of Directors for Community Colleges, FY 2002/2003 Budget Recommendation Select Policy Issues* (Attachment H) dated January 23, 2001

Mr. Young covered the following policy issues:

- FY 2001 Supplemental for Relocation of State Board Office
- Dual Enrollment

Senator Cirillo said that Mr. Young has been using the word "perception" and he asked if there is not duplicate funding being paid for the same student taking class. Mr. Young said according to the Executive office, yes there is, and no, he does not consider a perception to be the actual duplication of funding.

Senator Solomon asked if it was OSPB's belief that a large part of the question with regard to perception or reality in dual enrollment is going to be taken care of if the rule is adopted?

Mr. Young said that the rule that was adopted last Friday by the State Board really showed a lot of curriculum and admission concerns about what kind of students are available to participate in these classes and what types of classes are being taught. One thing the rule stated was that a person can only enroll in a dual enrollment class after they have taken four periods of instruction at the high school. The schools are allowed to receive full ADM funding, after they have taken four classes. From his understanding, he said the reason that they have adopted that rule for funding is because there are a lot of upper-class students and seniors who have already gained enough credits to graduate and they are only taking four credits because that is all they need to graduate. They do not want to short the Department of Education and school districts for students that are only taking four classes, so it is not to say that after the fourth class has been taken, they automatically stop funding, leaving students on their own and teachers working for free. That is where the gray area comes in, in terms of perception.

Senator Nichols said Mr. Young gave the philosophy behind the dual enrollment differential. He asked if he was reading his comparison budget correctly, that \$1,759,200 of the biennium for the community colleges is taken away each year. Mr. Young said when they published their budget that was the recommendation that they had made. They decided to fund them in the Operating and Capital Outlay State Aid formulas, which are the two that are enrollment driven at a 20 percent level. They perceive that 20 percent would cover the administrative costs associated with this program since most of the direct costs are incurred by the high school itself.

Senator Nichols said he is trying to get this down to the dollars and cents. He asked if he heard Mr. Young say that he is cutting the budget at the community colleges in his recommendation about \$3.5 million over the biennium because of this issue.

Mr. Young said essentially yes, this is the Executive's recommendation, but he would like to add that they are currently talking with the State Board to come up with a funding scenario, as they had said that this would kill the program if it was funded at this level. To come with either a different funding level or a certain funding formula, aside from the way that we currently fund FTSE, would allow the program to continue.

Senator Rios said along the same line, at what level is the community college saying they can still continue this program? He said the Executive is proposing a 20 percent reduction and the community colleges are basically saying the Executive will kill the program. He said that he did not want to see this program killed, so at what level are they being told that they can still continue doing it at a 100 percent.

Mr. Young said that this question would be best left for the community colleges to answer, since they have yet to reach agreement on that. There are certain funding scenarios that districts are operating under currently that the Executive thinks are good. One example would be Pima County, where they take a certain portion of the state funding that is given to them for FTSE and they turn around and use it later as tuition for students. So students participating in the dual enrollment program get to attend the program for free, those transfer to community college credits and many of those are transferred to university credits.

Senator Rios commented that this is a "heck" of a program that works well for a lot of high school students.

**Dr. Karen Nicodemus, President of Cochise Community College**, spoke to maintain a base funding for community colleges and was in the midst of discussing dual enrollment for the community colleges when the Members were called upon to convene on the Senate floor.

Due to time constraints, Senator Solomon apologized to the community college representatives that not enough time was given to them to present their budget. With the Committee's approval and Senator Hamilton's consent, Senator Solomon said further testimony on the community colleges would be heard in the Education and Natural Resources Subcommittee.

The following were present in support of the Community Colleges: **Dr. Fred Gaskin, Chancellor of Maricopa Community Colleges representing the Maricopa Community College District; Dr. Bob Jensen, Chancellor of Pima Community Colleges representing the Pima Community College District; Don Puyear representing the State Board of Directors for Community Colleges, Karen Rizk, representing the State Board of Directors for Community Colleges; and Dr. Kim Sheane representing the Arizona Community Colleges Association.**

There being no further business, the meeting was adjourned at 11:30 a.m.

Respectfully submitted,

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Melissa C. Upshaw, Committee Secretary

(Tapes and attachments on file in the Secretary of the Senate's Office/Resource Center, Room 115.)