**BILL #** HB 2079

**TITLE:** ~~community college boards; technical correction~~
NOW: higher education; funding; reform

**SPONSOR:** Knaperek

**STATUS:** As Amended by Senate Higher Education

**REQUESTED BY:** House

**PREPARED BY:** Jake Corey/Shelli Carol

# FISCAL ANALYSIS

### Description

The bill makes several changes to Arizona's higher education system. Among the major changes, the bill would establish per student enrollment growth funding amounts in the university and community college funding formulas and would eliminate equalization aid for community college districts. The bill would allow certain community college districts to offer four-year baccalaureate degrees on a limited basis and would grant Eastern Arizona College the option of becoming a four-year college under the jurisdiction of the Arizona Board of Regents (ABOR). In addition, the bill would appropriate $5 million from the General Fund to the Private Postsecondary Education Student Financial Assistance Program (PFAP) beginning in FY 2006.

### Estimated Impact

In FY 2006, the bill is estimated to have a General Fund cost of $5 million due to the appropriation for PFAP.

Most of the provisions in the bill, however, would not take effect until FY 2007. Prior to considering savings from students in less costly settings, in FY 2007 the bill is estimated to have a net General Fund cost of $20.3 million. In comparison to the long range cost of the current funding formulas, the bill's cost is estimated to decline to $14.6 million by FY 2011 (excluding any changes in attendance impact). The table below provides a summary of the provisions.

| **Provision** | **FY 2007 Impact** *($ in millions)* | **FY 2011 Impact** *($ in millions)* |
|---|---|---|
| New community college per student funding amounts | $ 28.4 | $ 33.5 |
| Eliminate Equalization Aid | (19.0) | (27.0) |
| Graham 4-year college, funding floor | 10.9 | 10.2 |
| New university per student funding amount | 1.8 | 2.9 |
| Establish 45th day enrollment counts for universities | (6.9) | (10.1) |
| University enrollment audit | 0.1 | 0.1 |
| PFAP appropriation | 5.0 | 5.0 |
| Changes in attendance patterns | Undetermined | Undetermined |
| TOTAL | $20.3 + attendance impact | $14.6 + attendance impact |

The bill could generate savings to offset the above costs by encouraging students to attend private school who otherwise would have attended public school or by encouraging students to attend a community college who otherwise who have attended a public university. To offset the $20.3 million estimated cost in FY 2007, between 3,600 and 4,800 students would have to attend less expensive settings.

The bill could also generate new costs if additional students attend a public higher education institution who otherwise would not have.

### Analysis

The bill contains several provisions that are outlined below, along with an analysis of each provision and a discussion of the fiscal impact. Since many of the provisions do not take effect until FY 2007, we have provided estimates for that year. We have also included an analysis of FY 2011 as we expect the impact of the bill to change over the long-term.

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***Community Colleges***

**1) New community college per student funding amounts**

- Beginning in FY 2007, prescribes an Operating State Aid per Full-Time Student Equivalent (FTSE) dollar amount, ranging from $1,040 to $2,040, based on a community college district's assessed valuation and FTSE count.
- Prescribes minimum Operating and Capital Outlay State Aid funding levels for Navajo and Pinal community college districts.

The provisions would have an estimated General Fund cost of approximately $28.4 million in FY 2007. Under the existing Operating State Aid formula, the community colleges receive on average about $1,000 per FTSE. Increasing that amount to between $1,040 and $2,040 would result in additional funding for the districts of $25.8 million. The provision prescribing minimum funding levels for Navajo and Pinal would result in no change to Pinal's level of funding, but would add $2.6 million to Navajo, which would offset the district's loss of Equalization Aid funding. *(See Eliminate Equalization Aid provision below.)* In FY 2011, assuming 5% average annual enrollment growth (represents average growth for the past 5 years), the provisions would have a cost of $33.5 million. The estimated costs of the provision represent the amounts over and above what the community college would have otherwise received in funding in those years under the existing formula.

**2) Eliminate Equalization Aid**

- Beginning in FY 2007, eliminates community college state Equalization Aid.

The provision would result in an annual General Fund savings beginning in FY 2007. Estimated savings in FY 2007 would be approximately $(19) million and would increase by an estimated $2 million each year. In FY 2011, savings would be estimated at about $(27) million.

Equalization Aid provides certain community college districts with additional operating funds to help offset their low property tax bases. Under the current formula, the total amount provided to Equalization Aid districts would be approximately $17 million in FY 2006, including $3 million to Cochise, $10 million to Graham, $3 million to Navajo, and $1 million to Yuma/La Paz. Over the past few years, Equalization Aid has grown by approximately $2 million each year. Under current statute, we would expect the formula to generate about $19 million for those four districts in FY 2007 and about $27 million in FY 2011. Savings from this provision would continue to grow over time.

**3) Authorize baccalaureate programs**

- Beginning in FY 2007, allows certain community college districts to offer four-year baccalaureate degrees in the following program areas: 1) law enforcement, 2) fire sciences, 3) health professions, and 4) teacher education. The districts may also offer degrees in a workforce-related discipline if a state university does not offer a degree in the area. Districts authorized to offer baccalaureate programs include Mohave, Navajo, Pinal, Maricopa at 50% of its colleges, and Pima at no more than three of its campuses. Health profession students shall be counted as 1.5 FTSE for the purposes of calculating state aid.

The costs from new community college students could be offset if the bill causes students to earn their four-year degree in the community college system rather than at a state university. Under the bill, the state would provide $5,600 in General Fund support for each university FTSE and $1,400 for each community college FTSE. Each student diverted from the universities to the community colleges, therefore, would have a General Fund savings of $(4,200). The program would generate a per FTSE formula savings if there are fewer than 3 new students for every student diverted from the universities.

In Florida, there are currently five community colleges that are authorized to offer baccalaureate degree programs. In FY 2004, according to information supplied by the Florida Department of Education, there were approximately 930 FTSE in baccalaureate degree programs at a Florida community college. Total expenditures for these programs were $8.5 million, or approximately $9,200 per FTSE. The Florida Department of Education projects enrollment to increase to about 2,300 FTSE in FY 2006.

**4) Graham 4-year college, funding floor**

- Beginning in FY 2007, allows Graham Community College District (Eastern Arizona College) to offer four-year baccalaureate degrees in any program area.
- Provides $5,600 in Operating and Capital Outlay State Aid funding per FTSE for upper division students at Graham.
- Prescribes a minimum Operating and Capital Outlay State Aid funding level for Graham.

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- Limits the tax rate for Graham to $1.50 from FY 2007 to FY 2012. By June 30, 2011, Graham shall adopt a resolution to either continue the tax levy to fund community college operations or to discontinue the levy and place Eastern Arizona College under the jurisdiction of ABOR.

Due to the provision prescribing a minimum funding level for Graham, we estimate a $10.9 million General Fund cost in FY 2007. Under the current formulas, Graham is estimated to receive a total of $6.1 million in Operating State Aid and Capital Outlay State Aid in FY 2007, while the bill would require the state to provide at least $17 million. The additional Operating and Capital Outlay funding would offset the district's loss of Equalization funding. *(See Eliminate Equalization Aid provision above.)* State funding could exceed $17 million depending on enrollment in upper division courses. We do not have estimates of enrollment in upper division courses at Graham if the district elects to offer baccalaureate degrees. In FY 2011, the cost associated with prescribing a minimum funding level is estimated to be $10.2 million.

The provision would result in additional local costs for Graham if the district decides to implement four-year baccalaureate degree programs, including costs to become accredited, offer more courses, hire additional faculty, and add to the existing administrative structure. Limiting the tax rate for Graham to $1.50 would reduce property tax revenues in the district by approximately $600,000. The current tax rate of $2.07 generates about $2.1 million in revenues. A rate of $1.50 would generate about $1.5 million. If Graham elects to place Eastern Arizona College under ABOR, the levy would be eliminated.

**5) Modified hold harmless**

- Beginning in FY 2007, prevents a community college district with declining enrollment in one year from receiving additional Operating State Aid funding in subsequent years until the district reaches its prior enrollment level.

The provision would result in an undetermined annual General Fund savings beginning in FY 2007. Currently a community college district is eligible for Operating State Aid growth funding even if the district had a decline in enrollment in a prior year. Under the provision, the district would not receive growth funding until it surpasses its prior enrollment level. The exact amount of savings generated would depend on enrollment levels in each of the community college districts. If the provision were effective in FY 2006, the savings in that year would have been $(153,800).

**6) Suspend capital matching funds**

- Prohibits a community college district from receiving campus matching funds from FY 2006 to FY 2008.

The provision could result in a state General Fund savings. Currently, statute requires the state to provide up to $1 million to a community college district for a new campus within the district. The provision suspends this requirement from FY 2006 to FY 2008. If a community college district were to build a campus within that time period, under the bill the state would not be required to provide matching funds.

**7) $600 million assessed valuation to form district**

- Beginning in FY 2007, requires a community college district to have an FY 2004 primary assessed valuation of at least $600 million.

The provision is not estimated to have a fiscal impact. All existing community college districts have an FY 2004 assessed valuation greater than $600 million, except for Graham. *(See above for analysis of the provisions related to Graham.)*

**8) Prohibit future provisional districts**

- Prohibits any new provisional community college district from being formed.

The provision is not estimated to have a state fiscal impact. There are currently three counties (Apache, Greenlee, and Santa Cruz) which are not part of an established community college district ("unorganized counties") that could form a provisional district under current statute. Provisional districts qualify for Operating State Aid and Capital Outlay State Aid. Each of the unorganized counties, however, is currently receiving services from an existing community college district through an intergovernmental agreement. Students in an unorganized county are included in the FTSE count of the district providing services, and therefore are already generating Operating State Aid and Capital Outlay State Aid funding for the provider district.

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Prohibiting future provisional districts could potentially result in foregone local savings for the unorganized counties of up to $2.4 million. Statute requires unorganized counties to reimburse community college districts for the costs of providing instruction to students from the unorganized counties ("out-of-county reimbursement"). Upon forming a provisional district, the county is no longer required to make out-of-county reimbursement payments. Since the bill prohibits any new provisional districts from being formed, any unorganized county that otherwise would have formed a provisional district in the future would forego these savings.

**9) New out-of-county reimbursement rate**

- Changes the calculation of the per FTSE rates by which community college districts are reimbursed for out-of-county student enrollment.
- Requires any excess revenues levied in an unorganized county to pay for out-of-county reimbursement to be transferred to the community college district providing services (up to 20% of excess revenues), deposited in a capital fund, or used to reduce the levy in the following year.

The provisions are not estimated to have a state fiscal impact. There would be an impact, however, for certain community college districts and certain counties as it would reduce the amount of out-of-county reimbursement. Under the current statutory formula, out-of-county reimbursement rates for each district range from about $2,900 to $7,600 per FTSE in FY 2005. The total amount paid by unorganized counties to the community college districts in FY 2005 is about $2.4 million.

Changing the calculation in FY 2005 would have reduced the district rates to between $800 and $6,700. The total FY 2005 amount under the new rates would be reduced to about $1.4 million, which would translate into a cost savings of $1 million for the unorganized counties and a corresponding reduction in funding for the community college districts. As provided for in the bill, the unorganized counties could transfer the generated savings to the community college district providing services, fund additional capital projects, or reduce the tax levy in the following year.

***Universities***

**10) New university per student funding amount**

- Establishes a statutory university funding formula with a per FTSE student formula growth amount of $5,600.

The current university student funding formula provides salary, benefit, and equipment support for 1 faculty and 0.5 staff positions per 22 new FTSE (22:1). In FY 2006, this amount results in additional appropriations of approximately $5,300 per new university FTSE. By replacing the 22:1 formula with a flat $5,600 per FTSE, this bill would result in an additional cost of $1.8 million in FY 2007. In FY 2011, the provision would have a cost of $2.9 million.

Over the long-term the provision would result in a state savings. The Legislature has historically increased the university 22:1 formula to account for statewide salary increases and benefit rate changes. Over the past five years, these annual increases have averaged 1.5%. Meanwhile, this bill does not provide any mechanism for raising the $5,600 amount. Assuming 1.5% salary and benefits growth in the 22:1 formula, the flat $5,600 provision would save funding under the new formula by FY 2016.

**11) Establish 45$^{th}$ day enrollment counts for universities**

- Provides that university funding shall be based on enrollment counts on the 45$^{th}$ day of the semester.

The provision would result in a General Fund savings of $(6.9) million in FY 2007. Historically, university funding derived from enrollment counts on the 21$^{st}$ day of the semester. Arizona State University reports that measuring enrollment on the 45$^{th}$ day of the semester would reduce total enrollment by about 1.5%. Assuming this same percentage decrease statewide, we estimate a total reduction in FY 2007 enrollment counts of approximately 4,300 students. In FY 2011, the provision would result in a General Fund savings of $(10.1) million.

**12) University enrollment audit**

- Requires the Auditor General to annually audit university enrollment.

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The provision would result in an annual General Fund cost. Since ABOR already conducts internal enrollment audits, for which the universities must prepare student information, the universities do not anticipate any further costs associated with the new audit requirement. The Auditor General, however, estimates that auditing university enrollments would require 1 FTE Position and $76,000 annually.

***Other Provisions***

**13) PFAP appropriation**

- Appropriates $5 million from the General Fund to the Private Postsecondary Education Student Financial Assistance Program (PFAP) in FY 2006. The appropriation is non-lapsing.
- Removes the requirement that students who receive financial assistance through PFAP must have first obtained an associate degree from a community college.
- Eliminates the current annual $1,500 cap on PFAP assistance. Requires the Commission for Postsecondary Education (CPE) to distribute an equal amount to all participating students.

The appropriation to PFAP would have an annual General Fund cost of $5 million beginning in FY 2006 as the new funding would be added to the base amount provided for the program. Due to the additional funding and the removal of the $1,500 cap, CPE may be able to offer additional financial assistance to new private school students or increase existing awards to current students. The $5 million cost could be offset if the additional funding results in new private school students or students remaining in private school who otherwise would have transferred to a public postsecondary education institution.

**14) Transfer Articulation Committee**

- Establishes a university-community college Transfer Articulation Committee (TAC) to examine the statewide transfer articulation system and make recommendations for improvement. The committee shall meet at least twice each year.

The provision is not estimated to have a fiscal impact. The community colleges and ABOR would be responsible for staffing the TAC meetings. Statute requires the universities and the community colleges to collaborate on a statewide transfer articulation system. The universities and community colleges, therefore, are already working jointly on transfer articulation issues.

**Local Government Impact**

The bill would have a range of impacts on the community college districts and certain counties. A summary of the FY 2007 local impact is provided below. (See Analysis Section for a more extensive discussion of the provisions and their local fiscal impact.)

| Provision | FY 2007 Local Impact | FY 2011 Local Impact |
|---|---|---|
| New per student funding amounts | $28.4 M Additional District Funding | $33.5 M Additional District Funding |
| Eliminate Equalization Aid | $(19) M Decrease in District Funding | $(27) M Decrease in District Funding |
| Authorize baccalaureate programs | Increased District Costs | Increased District Costs |
| Graham 4-year college, funding floor | Undetermined Impact | Undetermined Impact |
| Modified hold harmless definition | Decrease in District Funding | Decrease in District Funding |
| Suspend capital matching funds | Potential Decrease in District Funding | Potential Decrease in District Funding |
| Prohibit future provisional districts | Potential Foregone County Savings | Potential Foregone County Savings |
| New out-of-county reimbursement rate | $(1.0) M Decrease in County Costs<br>$(1.0) M Decrease in District Funding | $(1.3) M Decrease in County Costs<br>$(1.3) M Decrease in District Funding |

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