

Arizona Board of Regents

	FY 2015 ACTUAL	FY 2016 ESTIMATE	FY 2017 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	25.9	25.9	25.9
Personal Services	1,547,200	1,463,800	1,463,800
Employee Related Expenditures	536,000	543,800	543,800
Professional and Outside Services	24,300	54,500	54,500
Other Operating Expenditures	3,245,000	290,400	290,400
OPERATING SUBTOTAL	5,352,500	2,352,500	2,352,500
SPECIAL LINE ITEMS			
Arizona Teachers Incentive Program	90,000	90,000	90,000
Arizona Transfer Articulation Support System	213,700	213,700	213,700
Performance Funding	5,000,000	5,000,000	5,000,000 ^{1/2/3/4/}
Student Financial Assistance	10,041,200	10,041,200	10,041,200
Western Interstate Commission Office	137,000	141,000	141,000
WICHE Student Subsidies	4,094,000	4,090,000	4,090,000
AGENCY TOTAL	24,928,400	21,928,400	21,928,400
FUND SOURCES			
General Fund	24,928,400	21,928,400	21,928,400 ^{5/6/}
SUBTOTAL - Appropriated Funds	24,928,400	21,928,400	21,928,400
Other Non-Appropriated Funds	8,276,700	12,454,100	9,604,000
Federal Funds	250,100	1,786,600	915,800
TOTAL - ALL SOURCES	33,455,200	36,169,100	32,448,200

AGENCY DESCRIPTION — Article 11 of the Arizona Constitution creates the Arizona Board of Regents (ABOR). ABOR governs the 3 state institutions comprising the Arizona University System: Arizona State University (ASU), Northern Arizona University (NAU), and the University of Arizona (UA). The board is legally, fiscally, and strategically responsible for the state universities.

- ^{1/} The Arizona Board of Regents shall allocate the \$5,000,000 appropriation for performance funding to the 3 universities under its jurisdiction in accordance with a performance funding model to be adopted by the board that is substantially similar to what the board used in allocating the performance funding appropriation for FY 2016. (General Appropriation Act footnote)
- ^{2/} It is the intent of the Legislature that the Arizona Board of Regents adopt a performance funding model and report to the Joint Legislative Budget Committee the final allocation of the \$5,000,000 performance funding lump sum appropriation on or before July 1, 2016. The formula shall be consistent with board objectives previously adopted in the board's enterprise plan. The performance funding model shall use select performance metrics that include, at a minimum, the increase in degrees awarded, the increase in completed student credit hours and the increase in externally generated research and public service funding. The formula may give added weight to degrees related to science, technology, engineering and mathematics, as well as other high-value degrees that are in short supply or are essential to the state's long-term economic development strategy. (General Appropriation Act footnote)
- ^{3/} It is further the intent of the Legislature that the Arizona Board of Regents use the adopted performance funding model in developing and submitting future budget requests for the universities under its jurisdiction, and that the Legislature use the performance funding model in the development of future fiscal year appropriations for the universities under the jurisdiction of the Arizona Board of Regents. (General Appropriation Act footnote)
- ^{4/} Within 10 days after the acceptance of the universities' semiannual all funds budget reports, the Arizona Board of Regents shall submit an expenditure plan for review to the Joint Legislative Budget Committee. The expenditure plan shall include any tuition revenue amounts that are greater than the appropriated amounts and all retained tuition and fee revenue expenditures for the current fiscal year. The additional revenue expenditure plan shall provide as much detail as the university budget requests. (General Appropriation Act footnote)
- ^{5/} When determining any statewide adjustments, the Joint Legislative Budget Committee staff shall use the overall allocation of state General Fund and appropriated tuition monies for each university in determining that university's specific adjustment. (General Appropriation Act footnote)
- ^{6/} General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.

Operating Budget

The budget includes \$2,352,500 and 25.9 FTE Positions from the General Fund in FY 2017 for the operating budget. These amounts are unchanged from FY 2016.

Arizona Teachers Incentive Program

The budget includes \$90,000 from the General Fund in FY 2017 for the Arizona Teachers Incentive Program (ATIP). This amount is unchanged from FY 2016.

Laws 1990, Chapter 340 mandated that ABOR establish and administer a loan program for students of deaf and blind education at the UA College of Education. Students may earn forgiveness for their loans by teaching in an Arizona deaf and blind program for a time equal to their period of loan support. In FY 2015, ATIP distributed \$50,000 in loans among 10 students, as well as \$40,000 to the UA College of Education for deaf and blind instructional resources.

Arizona Transfer Articulation Support System

The budget includes \$213,700 from the General Fund in FY 2017 for the Arizona Transfer Articulation Support System (ATASS). This amount is unchanged from FY 2016.

A.R.S. § 15-1824 establishes ATASS as a joint initiative, among the public community colleges and universities, to facilitate efficient transfer of course curricula and credits. ATASS is also developing a shared statewide student and financial information database. The tribal colleges and community college districts overall contributed \$277,200 to the system in FY 2015 and are projected to also contribute \$277,200 in both FY 2016 and FY 2017.

Performance Funding

The budget includes \$5,000,000 from the General Fund in FY 2017 for the Performance Funding line item. This amount is unchanged from FY 2016.

The FY 2016 appropriation of \$5,000,000 to ABOR was distributed as follows:

- \$2,348,800 to ASU - Tempe/Downtown Phoenix (DPC)
- \$165,300 to ASU - East
- \$190,900 to ASU - West
- \$1,090,000 to NAU
- \$1,205,000 to UA - Main

The FY 2016 performance funding allocation is identical to that of FY 2015 and FY 2014. The FY 2017 budget includes a footnote that requires ABOR to allocate these funds similar to the FY 2016 distribution.

The FY 2013 General Appropriation Act (Laws 2012, Chapter 294) included an initial \$5,000,000 for performance funding that was reallocated from university base budgets to ABOR to fund the line item. These monies were allocated as follows:

- \$2,192,000 to ASU - Tempe/DPC
- \$156,300 to ASU - East
- \$271,700 to ASU - West
- \$1,035,000 to NAU
- \$1,345,000 to UA - Main

Only the FY 2013 performance funding monies were appropriated directly to each university. They have since become part of their base budgets and therefore are not included in this line item. Another \$5,000,000 was appropriated to this line item in the FY 2014 General Appropriation Act (Laws 2013, 1st Special Session, Chapter 1) and continued in subsequent budgets. Continuing General Appropriation Act footnotes since FY 2014 have directed ABOR to allocate this additional funding in accordance with a performance funding model similar to the previous year. Unlike the first \$5,000,000 that became part of universities' base budgets, the second \$5,000,000 has been retained in ABOR's budget at the beginning of each fiscal year to be redistributed again in a manner similar to the performance funding model of the prior year.

In summary, the FY 2013 - FY 2017 budgets have provided a total increase of \$10,000,000 from the General Fund for performance funding. Of that amount, \$5,000,000 has been allocated to individual campuses and included in their base budgets and \$5,000,000 remains in ABOR. *(Please see the Background below and the Footnotes section for more information.)*

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

Continuing General Appropriation Act footnotes have required that:

- ABOR report the final allocation of performance funding to the JLBC by July 1 of each year;
- The allocation model be similar to that used in the previous fiscal year (which ultimately ties the funding allocation to the FY 2014 model); and
- Take into account the metrics outlined in a separate footnote stating legislative intent.

A budget footnote since FY 2014 requires that ABOR use the adopted performance funding model in developing and submitting future budget requests for the universities under its jurisdiction, and that the Legislature use the performance funding model in the development of future fiscal year appropriations for the universities.

In their FY 2017 budget requests, the universities did not use the performance model and instead proposed an alternate funding formula that is tied to resident student enrollment. The FY 2017 budget adopts resident student enrollment as the basis of allocating the \$8,200,000 of additional resources distributed to the universities in FY 2017. *(Please see University Additional Resources and Resident Student Funding in the Other Issues section for more information.)*

Student Financial Assistance

The budget includes \$10,041,200 from the General Fund in FY 2017 for Student Financial Assistance. This amount is unchanged from FY 2016.

Pursuant to A.R.S. § 15-1642, monies in this line item match financial aid tuition surcharges collected from university students. The Arizona Financial Aid Trust (AFAT) fee is 1% of the full-time resident undergraduate tuition rate, or \$70-\$103 in FY 2016, depending on the university. All students pay roughly the same fee, except part-time students, who pay half the regular fee. The FY 2017 Higher Education BRB (Laws 2016, Chapter 130) continues to suspend the statutory requirement that the state provide a 2:1 ratio of state funding to student fees in FY 2017.

AFAT retains 25% of all annual receipts as an endowment. ABOR distributes the remaining monies, proportionally to each university's respective contribution, to provide immediate assistance for needy in-state students. In FY 2015, AFAT disbursed \$20,686,900. *(Please see Table 9 for additional information on financial aid.)*

Western Interstate Commission Office

The budget includes \$141,000 from the General Fund in FY 2017 for the Western Interstate Commission Office. This amount is unchanged from FY 2016.

Monies in this line item pay the state's share of administrative expenditures for the Western Interstate Commission on Higher Education (WICHE), in accordance with A.R.S. § 15-1742. The WICHE central office sets the administrative fee.

WICHE Student Subsidies

The budget includes \$4,090,000 from the General Fund in FY 2017 for WICHE student subsidies. This amount is unchanged from FY 2016.

Monies in this line item provide subsidies to Arizona students participating in the WICHE Professional Student Exchange Program (PSEP). Since the Arizona University System does not currently offer programs in dentistry, optometry, osteopathy, podiatry, or veterinary medicine, PSEP allows interested students to enroll in these programs at private in-state institutions or other public western universities.

In FY 2016, ABOR is providing subsidies to 169 Arizona students, which is (3) fewer than FY 2015. Participating students receive admissions preference and subsidized tuition. A.R.S. § 15-1745 requires graduates to practice 1 year in Arizona, or 6 months in an under-served Arizona community, for each year of WICHE support. Participants who fail to meet their service requirements must repay 100% of their subsidies, plus interest.

The WICHE central office determines subsidy amounts for each program through negotiations with participating institutions. As rough guidance, WICHE subsidies are intended to cover the difference between resident and non-resident tuition at a public university or approximately half the private university tuition rate.

Other Issues

This section includes information on the following topics:

- Long-Term Budget Impacts: 2003 Research Infrastructure Refinancing
- Long-Term Budget Impacts: FY 2015 Operating Increase
- Payment Deferral
- Proposition 123

- Health Insurance Trust Fund: FY 2016 Supplemental, FY 2017 Adjustment
- University Additional Resources
- Resident Student Funding
- Tuition Revenues
- 2003 Research Infrastructure Refinancing
- One-Time Funding
- Education Learning and Accountability System
- Additional Legislation
- University System Summary Tables

Long-Term Budget Impacts: 2003 Research Infrastructure Refinancing

As part of the budget’s 3-year spending plan, ABOR’s General Fund costs are projected to increase \$4.2 million in FY 2018 above 2017 and decrease \$(900) in FY 2019 below FY 2018. These estimates are based on increases in the level of state appropriations required to cover Research Infrastructure debt service costs in FY 2018 and FY 2019 relative to FY 2017. The universities refinanced their Research Infrastructure payments in 2014 and 2015, with the largest annual savings occurring in FY 2015 through FY 2017. *(Please see 2003 Research Infrastructure Refinancing for more information.)*

Long-Term Budget Impacts: FY 2015 Operating Increase

The FY 2015 budget increased General Fund support for university operations by \$4.5 million. Of that amount, ASU received \$2.0 million, NAU \$500,000, and UA \$2.0 million. A footnote in the FY 2015 General Appropriation Act continued this appropriation in FY 2016 and FY 2017.

The 3-year spending plan associated with the FY 2017 budget assumes continuation of this \$4.5 million appropriation in FY 2018 and FY 2019.

Payment Deferral

The budget includes \$200,000,000 from the General Fund in FY 2016 for a one-time supplemental to eliminate the universitywide payment deferral. In FY 2009, payment of \$100,000,000 of the state’s General Fund appropriation to the universities was deferred until FY 2010. Each university’s share of the deferral was proportional to its level of General Fund support. In FY 2010, the amount of payments deferred until FY 2011 increased to \$200,000,000. Since that time, the deferral has been carried over each year: \$200,000,000 of the universities’ General Fund appropriations each year has been used to cover the amount of payments that were deferred from the prior year.

The amounts that had been deferred from each campus and the corresponding FY 2016 supplemental are as follows:

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

The \$200,000,000 FY 2016 supplemental provides the universities a total appropriation that covers their full payment during FY 2016, rather than delaying \$200,000,000 of the payments until FY 2017.

The elimination of the payment deferral improves the cash position of the universities by accelerating the receipt of their annual General Fund appropriations. Under the deferral, each university did not receive its share of the \$200,000,000 until September 30 of the subsequent fiscal year. Going forward, the universities will receive those monies alongside the rest of their General Fund appropriations, which are paid out monthly during the current fiscal year.

Each university has discretion over the use of its deferral payoff monies, subject to approval of its overall budget plans as submitted to ABOR.

Proposition 123

As a beneficiary of the Arizona State Land Trust, ABOR receives monies generated from lease revenues as well as the proceeds from trust land sales that are invested into “permanent funds” on behalf of the universities, pursuant to Article X, Section 7 of the Arizona Constitution.

ABOR distributes state land trust monies to the universities from 6 funds. These distributions are allocated to the universities in accordance with A.R.S. § 15-1662, 15-1663, and ABOR Policy 3-606. The universities’ land trust monies are non-appropriated. ABOR may expend them “as it deems expedient,” with 1 exception: the Universities Land Fund. This fund is comprised of the University Land Code and the UA Land - 1881 Fund. All proceeds in the Universities Land Fund, including the UA Land - 1881 Fund, are distributed proportionately among the 3 universities based upon the total student credit hours in the fall semester of the previous year. The Universities Land Fund provides matching funds for the interest earned on nonpublic

endowment monies donated to attract and retain faculty, otherwise known as the Eminent Scholars Program.

In addition to lease revenues, ABOR received \$2,139,100 in monies distributed by the Treasurer from its permanent fund in FY 2015, as shown below in *Table 1*.

As approved by the voters in May 2016, Proposition 123 will increase the Treasurer’s annual distribution rate from the State Land Trust Permanent Fund from 2.5% to 6.9% from FY 2016 through FY 2025.

As a result, ABOR will receive \$4,450,700 in additional revenue from the Treasurer’s distributions in FY 2016 and an estimated total of \$8,118,000 from the Treasurer’s distributions in FY 2017. Pursuant to A.R.S. § 15-1663, ABOR may expend these new revenues without additional legislative appropriation. *(Please see the Department of Education - Endowment Earnings section for more information.)*

Table 1

State Land Trust Distributions: Universities ^{1/}

	FY 2015 2.5% Distribution	FY 2016 Additional Funds: Prop 123	FY 2017 6.9% Distribution
Military Institute	\$ 12,800	\$ 24,600	\$ 41,600
Normal Schools	82,100	163,600	285,800
A&M Colleges	228,000	443,300	754,700
School of Mines	258,000	501,200	853,600
Universities Land Fund	1,558,200	3,318,000	6,182,300
University Land Code	429,000	851,300	1,483,800
U of A Land – 1881	<u>1,129,200</u>	<u>2,466,700</u>	<u>4,698,500</u>
Total	2,139,100	4,450,700	8,118,000

^{1/} Excludes income from the rental/lease of the universities’ state land trust property.
^{2/} Only the University of Arizona receives monies from the School of Mines Fund.

Health Insurance Trust Fund: FY 2016 Supplemental, FY 2017 Adjustment

The Health Insurance Trust Fund (HITF) is used to administer state employee health insurance benefit plans. Funding consists of employer and employee medical and dental insurance contributions. At the end of FY 2015, HITF had a balance of \$339,800,800. Recent budgets have included a number of measures to reduce the HITF balance.

One method to reduce the HITF balance is to adjust the employer/employee contribution strategy. Because of

the recent trend of HITF receipts exceeding annual costs, the FY 2016 budget included \$(16,200,000) of statewide General Fund savings related to reducing state agency health insurance contribution rates.

In calculating the reduction allocations to the agencies, the JLBC Staff used ADOA employer premium contribution rate estimates for calendar year 2016 as well as payroll data, which outlined the percentage of total health insurance premiums paid by the General Fund for each agency. The total General Fund reduction to the Universities was \$(6,055,600). *(Please see Table 2 for the FY 2016 General Fund reduction by university.)*

After further review, however, the JLBC Staff determined that the payroll data overstated the percentage of university health insurance premiums paid by the General Fund. As a result, the budget includes a \$4,076,000 universitywide supplemental for FY 2016 to lower the total General Fund reduction from \$(6,055,600) to \$(1,979,600) in FY 2016 based on the universities’ self-reported allocation of health care contributions between the General Fund and Tuition and Other Funds.

To make the issue budget neutral from a General Fund perspective, the budget also includes a transfer of \$4,076,000 from HITF to the General Fund.

By overstating the share of health insurance premiums paid by university General Fund dollars, the original FY 2016 budget had understated the share paid by Tuition and Other Funds. Therefore, while the original FY 2016 reduction allocated to the universities’ General Fund appropriation was too large, the corresponding reduction allocated to Tuition and Other Funds was too low. The FY 2017 budget does not revise the appropriation authority for Tuition and Other Funds, however, because the universities ultimately determine the share of tuition that is expended as appropriated, rather than non-appropriated, money.

The state’s health insurance plans operate on a calendar year basis, so the revised \$(1,979,600) savings for 6 months of FY 2016 are annualized to \$(3,959,200) for the full year of FY 2017. As a result, the budget increases the universities’ FY 2017 General Fund appropriation by \$2,096,400, bringing the original \$(6,055,600) reduction enacted in FY 2016 to \$(3,959,200) in FY 2017. This General Fund increase appears as part of a back of the bill statewide adjustment.

To ensure that future adjustments appropriately take into account the universities’ funding structure, the FY 2017 General Appropriation Act (Laws 2016, Chapter 117) stipulates that when determining any statewide

Table 2**University HITF General Fund Reductions FY 2016 - FY 2017**

	Budgeted FY 2016 Reductions	Revised FY 2016 Reductions	FY 2016 Supplemental (Difference)	FY 2017 Adjustments (vs. original FY 2016)	Resulting FY 2017 Reduction
ASU	\$(3,402,200)	\$(1,119,000)	\$2,283,200	\$1,153,000	\$(2,249,200)
NAU	(61,800)	(21,600)	40,200	21,000	(40,800)
UA	<u>(2,591,600)</u>	<u>(839,000)</u>	<u>1,752,600</u>	<u>922,400</u>	<u>(1,669,200)</u>
Total	\$(6,055,600)	\$(1,979,600)	\$4,076,000	\$2,096,400	\$(3,959,200)

adjustments, the JLBC Staff shall use the overall allocation of state General Fund and appropriated tuition monies for each university in determining that university's specific adjustment.

(Please see the HITF section in the Arizona Department of Administration narrative for more information.)

University Additional Resources
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The 3-year spending plan associated with the enacted FY 2016 budget included \$8.2 million from the General Fund in FY 2017 for additional resources. The FY 2017 Baseline allocated this funding proportionate to the university system reduction in FY 2016, which was based on each university's share of the system's total student count.

The FY 2017 budget instead allocates the \$8.2 million based upon each university's share of statewide resident

student enrollment. This allocation methodology reflects the funding approach ABOR proposed in its FY 2017 budget request. *(Please see Resident Student Funding narrative below for more information.)*

Table 3 provides a comparison of the additional resources each university receives under the resident based calculation of the FY 2017 budget, compared to the original Baseline allocation. Based on the average of fall and spring enrollment as disclosed in the Auditor General's FY 2015 FTE Student Enrollment Report, the university system enrolled 90,843 full-time equivalent resident students in FY 2015. Of this amount, 48,460 (53.3%) were enrolled at ASU, 17,002 (18.7%) were enrolled at NAU, and 25,381 (27.9%) were enrolled at UA. As a result, ASU receives 53.3%, or \$4.4 million, of the total \$8.2 million. NAU receives 18.7%, or \$1.5 million, and UA receives 27.9%, or \$2.3 million.

Table 3**FY 2017 University Additional Resources**

	FY 17 Baseline: Total Student Enrollment		FY 17 Budget: Resident Student Enrollment			FY 17 Budget vs. Baseline
	% of Total System ^{1/}	Funding Amount	% of Total System ^{2/}	% of University ^{3/}	Funding Amount	Funding Difference
ASU - Tempe/DPC	45.7%	\$3,745,500	44.2%	82.8%	\$3,623,300	\$(122,200)
ASU - East	3.6%	298,000	4.0%	7.5%	328,700	30,700
ASU - West	4.5%	367,500	5.1%	9.7%	422,200	54,700
ASU Total	53.8%	4,411,000	53.3%	100.0%	4,374,200	(36,800)
NAU	17.5%	1,433,200	18.7%	100.0%	1,534,800	101,600
UA - Main	28.2%	2,314,300	25.1%	89.7%	2,055,300	(259,000)
UA - HSC	0.5%	41,500	2.9%	10.3%	235,700	194,200
UA Total	28.7%	2,355,800	27.9%	100.0%	2,291,000	(64,800)
University Total	100.0%	\$8,200,000	100.0%		\$8,200,000	\$0

^{1/} FY 2017 Baseline allocations were proportionate to FY 2016 funding reduction allocations, which were based on each university's total student count.

^{2/} Universities' share of resident enrollment based on the average of the FY 2015 spring and fall resident student enrollment counts at each university as published by the Auditor General.

^{3/} The Auditor General's report does not provide enrollment information by campus. As a result, each university's share of the additional resources is divided among its campuses based on adjusted 45 day FY 2015 FTE counts provided by ABOR.

Resident Student Funding

Contrary to a FY 2016 General Appropriation Act footnote, ABOR did not use its adopted performance funding model in developing and submitting the universities' FY 2017 budget requests. Instead, ABOR requested state funding based on the number of resident students enrolled at each campus.

ABOR states that in FY 2016, the average education cost per resident undergraduate student at a state university is \$15,600, of which the state General Fund is estimated to contribute \$5,300 per student, tuition and fees cover \$6,600, and the universities pay the remaining \$3,700. The Universities primarily cover this amount by charging non-resident students tuition and fees beyond the average education cost.

ABOR requested additional state funding to increase the state share of resident students, with a goal that the state would eventually bear 50% of the total educational costs.

The budget adopts a resident based funding allocation for the \$8.2 million in additional systemwide funding, but otherwise maintains the current performance-funding allocations as well as the footnote requirement that ABOR adopt a performance based funding model when developing and submitting university budget requests. *(Please see Performance Funding and University Additional Resources narratives above for more information).*

Tuition Revenues

The FY 2017 Higher Education BRB amends A.R.S. § 15-1626A to require the universities to deposit tuition and fee revenues into separate tuition and fee revenue subaccounts for each university beginning in FY 2019.

Currently, statute allows the universities to retain a portion of tuition collections for expenditures, as approved by ABOR pursuant to A.R.S. § 15-1626A. These "locally" retained tuition monies are considered non-appropriated and are deposited into accounts labeled as "Designated" funds. The Designated Fund for each university includes the retained tuition and fees as well as monies from other sources.

Any remaining tuition collections are remitted to the Treasurer before being disbursed back to the universities into "Collections" funds as part of the appropriated budget. As with the non-appropriated tuition monies in the Designated Funds, tuition revenues in the appropriated Collections Funds are mixed with other revenue sources such as state land trust monies and

miscellaneous receipts. While Financial Aid and Debt Service are primarily non-appropriated, general operating expenses appear in both appropriated and non-appropriated budgets.

By requiring that the universities to keep tuition and fee monies separate from other revenue sources, the FY 2017 Higher Education BRB is intended to make the university funding structure more transparent.

The Higher Education BRB also amends A.R.S. § 55-146 to eliminate the requirement that the universities remit appropriated tuition revenues to the Treasurer, also effective beginning FY 2019. This provision does not change the current split between appropriated and non-appropriated tuition monies.

Total FY 2017 tuition and fees are projected to be \$2.1 billion. Of this amount, \$1.2 billion is appropriated while \$948.3 million is non-appropriated.

2003 Research Infrastructure Refinancing

Laws 2003, Chapter 267, which established A.R.S. § 15-1670, appropriated for FY 2008 to FY 2031 monies to the universities each year for lease-purchase capital financing of research infrastructure projects such as installations and facilities for the continuance and growth of scientific and technological research activities.

The budget includes an increase of \$2.9 million from the General Fund in FY 2017 to amend research infrastructure lease-purchase payments to their actual debt service obligations.

In 2013, ABOR refinanced the Certificates of Participation (COPs) for the 2003 research infrastructure appropriation. Section 134 of the FY 2015 General Appropriation Act reduced individual campus appropriations to reflect the new debt service obligations in FY 2015 to FY 2017, resulting in total savings across all 3 universities of \$(5.6) million in FY 2015, \$(8.1) million in FY 2016 and \$(4.3) million in FY 2017.

In the spring of 2016, ABOR provided debt service schedules reflecting subsequent refinancing of the lease-purchase payments for ASU and NAU. These schedules further reduced the universities' total payment obligations through FY 2031 by \$(17.8) million, including an additional \$(951,900) decrease in ASU's FY 2017 payments. As a result, the FY 2017 Higher Education BRB amends the FY 2015 General Appropriation Act to increase savings across all 3 universities to \$(5.2) million, rather than \$(4.3) million, in FY 2017.

Table 4**Adjustments to Appropriation for Refinance of University Research Infrastructure Facilities**

	FY 2015	FY 2016	FY 2017 Adjustment	FY 2017
ASU	\$ (522,600)	\$(3,045,900)	\$ (235,800)	\$(3,281,700)
NAU	(408,500)	(406,800)	(1,246,400)	(1,653,200)
UA	(4,659,800)	(4,659,400)	4,384,800	(274,600)
Total	\$(5,590,900)	\$(8,112,100)	\$2,902,600	\$(5,209,500)

The \$2.9 million increase in the FY 2017 budget reflects the additional costs in FY 2017 (as revised) beyond those of FY 2016. Of this amount, the General Fund appropriations are adjusted \$(235,800) for ASU, \$(1,246,400) for NAU, and \$4,384,800 for UA in FY 2017 compared to FY 2016. Since Section 134 of the FY 2015 General Appropriation Act, as amended by the FY 2017 Higher Education BRB, reduces individual campus appropriations in FY 2017, the additional savings do not appear in the FY 2017 General Appropriation Act. *(Please see Table 4 for more information.)*

The FY 2017 Higher Education BRB also amends A.R.S. § 15-1670 to adjust the original debt service appropriation for FY 2018 through FY 2031 to reflect lower debt service payments as a result of the lease-purchase refinancing. *(Please see Table 5 for more information.)*

The average annual savings of the new debt service appropriation for all remaining payments compared to the original appropriation is \$(2.0) million. The majority of the savings come from ASU and NAU. *(Please see Capital Outlay - Arizona Board of Regents section for additional information.)*

One-Time Funding

Section 149 of the FY 2017 General Appropriation Act appropriates \$19.0 million to the universities from the General Fund in FY 2017 for one-time operating expenditures or capital improvements. Of this amount, \$8.0 million is appropriated to UA, \$7.0 million to ASU, and \$4.0 million to NAU.

A General Appropriation Act requires the universities to report the intended use of the monies to the Joint Legislative Budget Committee by August 1, 2016. The footnote also requires review by the Joint Committee on Capital Review for any these monies that are used for capital projects.

These monies are included in the General Fund budget of each university's individual agency section. *(Please see the individual university sections for more information.)*

Table 5**FY 2018 – 2031 Research Infrastructure Appropriations**

Fiscal Year	ASU	NAU	UA	Total
2018	\$ 13,481,000	\$ 5,896,500	\$ 14,249,300	\$ 33,626,800
2019	13,478,700	5,896,200	14,251,000	33,625,900
2020	13,456,300	5,899,500	14,250,200	33,606,000
2021	13,458,700	4,879,500	14,251,500	32,589,700
2022	13,451,900	5,039,800	14,248,900	32,740,600
2023	13,462,100	5,301,500	14,252,500	33,016,100
2024	13,468,200	5,302,900	14,255,300	33,026,400
2025	13,459,300	4,885,500	14,247,300	32,592,100
2026	13,453,900	4,884,500	14,248,400	32,586,800
2027	13,450,100	4,884,300	14,251,300	32,585,700
2028	13,436,200	4,894,000	14,254,100	32,584,300
2029	13,430,800	4,888,400	14,251,500	32,570,700
2030	13,423,500	4,892,000	14,252,500	32,568,000
2031	<u>13,428,800</u>	<u>4,889,300</u>	<u>14,255,800</u>	<u>32,573,900</u>
2018 - 2031	188,339,500	72,433,900	199,519,600	460,293,000

^{1/} FY 2018 – 2031 research infrastructure General Fund appropriations as specified in A.R.S. § 15-1670, as amended by the FY 2017 Higher Education BRB.

Education Learning and Accountability System

The FY 2016 K-12 Education Budget Reconciliation Bill (BRB) (Laws 2015, Chapter 15) levied fees of \$6 per Full-Time Student Equivalent (FTSE) from Arizona's public universities and community colleges to support the ongoing operation and development of the Education Learning and Accountability System (ELAS) at the Department of Education (ADE).

The FY 2017 budget eliminates these fees and provides all funding for the ELAS project from General Fund appropriations.

(Please see the Arizona Department of Administration - Automation Projects Fund section for more information.)

Additional Legislation

AmeriCorps Tuition

Laws 2016, Chapter 11 classifies individuals who have participated in the AmeriCorps or Volunteers in Service to America programs for at least one year in Arizona as eligible to receive in-state tuition rates.

Commercial Paper

Laws 2016, Chapter 238 authorizes ABOR to issue commercial paper on behalf of the universities to provide short-term financing for any capital project expense.

The repayment of commercial paper is classified as a current expense, and both ABOR and the state are relieved of any outstanding obligations at the end of the current fiscal year if ABOR fails to make payments on its issuances.

ABOR's commercial paper issuances may have a maturity of no more than 270 days, but ABOR may issue commercial paper to repay obligations on previously issued commercial paper.

ABOR must include the projected debt service on any capital improvement plans temporarily financed with commercial paper in the debt ratios included in the universities' capital improvement plans. For any projects funded by commercial paper that ABOR does not expect to replace with permanent financing, ABOR must calculate debt service using an assumed financing term of 30 years.

University System Summary Tables

The University System Summary Tables address the following:

- Total Spending Authority
- Tuition Distribution
- Tuition Rates
- Financial Aid
- Enrollment

Total Spending Authority

In total, the Universities' total projected spending authority in FY 2017 is \$5.28 billion, including \$698.5 million from the General Fund and \$2.18 billion of tuition/fee collections. This latter amount is not adjusted for any FY 2017 tuition rate changes. *Table 6* summarizes the FY 2017 expenditure authority amounts for the Arizona University System.

Tuition Distribution

A.R.S. § 15-1626 authorizes ABOR to allocate tuition monies between the appropriated operating budgets, under legislative control, and non-appropriated funds, locally retained by the universities. The latter includes

Table 6

FY 2017 Summary of Spending Authority

	Appropriated Funds			Non-Appropriated Funds		Total
	General Fund	Collections Fund ^{1/}	Tech & Research Fund (TRIF)	Federal Funds	Other Funds ^{2/}	
ABOR	\$ 21,928,400	\$ 0	\$ 0	\$ 915,800	\$ 9,604,000	\$ 32,448,200
ASU-Tempe/DPC	253,541,200	551,220,900	0	286,349,700	1,066,208,200	2,157,320,000
ASU-East	22,575,300	35,722,900	2,000,000	8,377,200	20,447,300	89,122,700
ASU-West	29,281,100	44,241,400	1,600,000	12,608,400	53,429,200	141,160,100
NAU	105,227,000	145,286,600	0	82,890,700	237,598,400	571,002,700
UA-Main	197,059,600	361,149,600	0	229,509,200	998,744,300	1,786,462,700
UA-Health Sciences	68,859,800	44,053,800	0	97,536,300	287,239,200	497,689,100
Total	\$698,472,400	\$1,181,675,200	\$3,600,000	\$718,187,300	\$2,673,270,600	\$5,275,205,500

^{1/} Appropriated share of tuition and mandatory registration fees comprise \$1,167,985,600 of the total Collections Fund spending authority. The remaining authority is derived from miscellaneous fees. This amount excludes FY 2017 tuition rate changes.

^{2/} Expenditures of non-appropriated tuition and mandatory registration fees for debt service and building maintenance are excluded from the Other Funds amounts, which ultimately understates the estimated total university system spending authority for FY 2017. The total expenditures of non-appropriated tuition are estimated to be \$1,000,315,300 in FY 2017 and are reflected in *Table 7*. This amount excludes FY 2017 tuition rate changes.

^{3/} General Fund appropriations include \$19.0 million in one-time operating or capital expenditure appropriation.

financial aid, facilities (plant fund), debt service, and some of their operating budget. Total tuition collections for the Arizona University System equal an estimated \$2.13 billion in FY 2016 and \$2.18 billion in FY 2017 (please see Table 7). The FY 2017 amount is not adjusted for any FY 2017 tuition rate changes.

Tuition Rates

ABOR approved FY 2017 tuition rates on April 7, 2016.

- Over the previous 7 years, NAU has maintained a guaranteed tuition model for incoming freshman. NAU is increasing tuition by 3.9% for new undergraduate resident students.
- UA began a similar program in FY 2015. UA is increasing tuition by 3.2% for new resident undergraduate students.
- For FY 2016, ASU resident undergraduate students did not see a tuition increase, but were charged a one-year \$320 tuition surcharge fee (representing a 3.2% increase to tuition and mandatory fees). This surcharge is reduced to \$270 in FY 2017, but total tuition and fees for resident undergraduates are increasing 1.5% in FY 2017.

Table 8 only includes major tuition categories. A comprehensive list can be found on the [ABOR website](#).

Financial Aid

The Arizona University System distributed \$2.2 billion in financial aid in FY 2015. Of the \$2.2 billion total financial aid distributions in FY 2015, the federal government financed \$986 million and university institutional sources provided \$744 million. The latter includes tuition collections set aside for financial aid. (Please see Table 9 for details.)

Enrollment

Between fall 2014 and fall 2015, university enrollment increased from 146,611 FTE to 157,877, or 7.7%, as displayed in Table 10. Spring enrollment is traditionally lower than the fall.

	Tuition Revenue Allocation		
	FY 2015 Actual	FY 2016 Estimate	FY 2017 Estimate
<u>Appropriated</u>			
Operating Budget	\$1,022,249,500	\$1,181,675,200 ^{1/}	\$1,181,675,200 ^{2/}
<u>Non-Appropriated</u> ^{3/}			
Operating Budget	\$ 204,303,400	\$ 279,041,800	\$ 300,617,200
Financial Aid	468,836,100	545,622,700	572,183,500
Plant Fund	33,463,300	30,768,700	32,987,700
Debt Service	<u>86,312,800</u>	<u>92,826,900</u>	<u>94,526,900</u>
<i>Subtotal</i>	<i>\$ 792,915,600</i>	<i>\$ 948,260,100</i>	<i>\$1,000,315,300</i>
Total	\$1,815,165,100	\$2,129,935,300	\$2,181,990,500
^{1/}	This amount reflects appropriated tuition collections and fees as allocated by ABOR and favorably reviewed by the JLBC at its December 2015 meeting.		
^{2/}	The appropriated tuition and fees amount is the FY 2016 amount carried forward and does not reflect FY 2017 tuition adjustments that will be considered by ABOR in the spring of 2016.		
^{3/}	The source for these non-appropriated amounts are the universities' FY 2017 budget requests from October 2015.		

Table 8

**Arizona University System
FY 2017 Undergraduate and Graduate Tuition ^{1/}**

	<u>Resident Undergraduate</u>		<u>Resident Graduate</u>		<u>Non-Resident Undergraduate</u>		<u>Non-Resident Graduate</u>	
	<u>Tuition</u>	<u>Increase</u>	<u>Tuition</u>	<u>Increase</u>	<u>Tuition</u>	<u>Increase</u>	<u>Tuition</u>	<u>Increase</u>
ASU	\$10,640 ^{2/}	1.5%	\$11,756	1.3%	\$26,470 ^{3/}	4.0%	\$28,862	4.0%
NAU	\$10,764	3.9%	\$9,989	4.0%	\$24,144	3.4%	\$21,976	3.4%
UA	\$11,769	3.2%	\$12,383	2.8%	\$34,967	7.2%	\$32,135	5.8%

^{1/} Reflects tuition rates for new students at NAU and UA and all classes at ASU. NAU and UA provide a guaranteed tuition rate for each incoming class, whereas ASU does not.

^{2/} FY 2016 one-year \$320 surcharge reduced to \$270 in FY 2017. Overall tuition and fee increase of 1.5% for ASU undergraduate resident students.

^{3/} ABOR approved a rate of \$28,270 for international undergraduate students at ASU.

Table 9

**FY 2015 Financial Aid Distribution by Source
(\$ in Thousands) ^{1/}**

	<u>Federal</u>	<u>State</u> ^{2/}	<u>Institutional</u> ^{3/}	<u>Private/Other</u> ^{4/}	<u>Total</u>
Grants	\$245,493.1	\$1,018.3	\$560,972.0	\$201,759.5	\$1,009,242.9
Loans	733,679.4	147.3	41.5	266,130.9	999,999.1
Employment	<u>7,172.1</u>	<u>0.0</u>	<u>183,475.0</u>	<u>0.0</u>	<u>190,647.1</u>
Total	\$986,344.6	\$1,165.6	\$744,488.5	\$467,890.4	\$2,199,889.0 ^{5/}

^{1/} Information provided by ABOR.

^{2/} State sources of aid include revenues from the Commission for Postsecondary Education.

^{3/} Institutional sources of aid include revenues from: Local Retention, the Collegiate License Plate Fund, Foundation funds, and Financial Aid Carry Forward from previous years.

^{4/} Private/Other sources of aid include AFAT, which is a combination of both state and institutional sources of aid.

^{5/} Numbers do not add due to rounding.

Table 10

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

	<u>Fall 2014</u>	<u>Spring 2015</u>	<u>Fall 2015</u>	<u>Spring 2016</u>	<u>Fall 2014 to Fall 2015 % Change</u>	<u>FY 2014 – 2015 Residents</u> ^{2/}
	ASU- Tempe/ DPC	68,612	66,770	73,956	72,556	7.8%
ASU-East	5,687	5,744	6,565	6,490	15.4%	3,641
ASU-West	6,610	7,282	7,992	7,873	20.9%	4,678
NAU	25,743	24,865	27,212	26,400	5.7%	17,002
UA-Main	37,131	36,672	38,593	37,515	3.9%	22,770
UA-Health						
Sciences	<u>2,828</u>	<u>3,343</u>	<u>3,559</u>	<u>3,528</u>	<u>25.8%</u>	<u>2,611</u>
Total	146,611	144,676	157,877	154,362	7.7%	90,843

^{1/} Adjusted FTE does not include students with excess credit hours.

^{2/} FY 2014-2015 resident enrollment numbers are based on the average of each university's FY 2015 fall and spring resident student enrollment counts as published by the Auditor General. Campus specific values are imputed using the share of each campus' adjusted 45-day FY 2015 FTE counts as provided by ABOR as a percentage of each university's overall adjusted FTE count.