

Arizona Board of Regents

	FY 2018 ACTUAL	FY 2019 ESTIMATE	FY 2020 APPROVED
OPERATING BUDGET			
<i>Full Time Equivalent Positions</i>	25.9	25.9	25.9
Personal Services	1,233,800	1,436,300	1,436,300
Employee Related Expenditures	796,900	548,500	551,000
Professional and Outside Services	23,900	38,500	38,500
Other Operating Expenditures	318,800	338,800	375,900
Equipment	1,200	1,300	1,300
OPERATING SUBTOTAL	2,374,600	2,363,400	2,403,000
SPECIAL LINE ITEMS			
Adaptive Athletics	0	0	160,000 ^{1/}
Arizona Teachers Academy	0	0	15,000,000
Arizona Teachers Incentive Program	90,000	90,000	90,000
Arizona Transfer Articulation Support System	213,700	213,700	213,700
Washington D.C. Internships	0	0	300,000 ^{2/}
Western Interstate Commission Office	149,000	153,000	153,000
WICHE Student Subsidies	4,082,000	4,078,000	4,078,000
AGENCY TOTAL	6,909,300	6,898,100	22,397,700 ^{3/4/5/}
FUND SOURCES			
General Fund	6,909,300	6,898,100	22,397,700
SUBTOTAL - Appropriated Funds	6,909,300	6,898,100	22,397,700
Other Non-Appropriated Funds	5,861,300	8,675,400	6,974,700
Federal Funds	356,500	700	0
TOTAL - ALL SOURCES	13,127,100	15,574,200	29,372,400

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.

FOOTNOTES

- ^{1/} The Arizona Board of Regents shall distribute monies appropriated for the Adaptive Athletics line item to each university under the jurisdiction of the board to maintain and operate an intercollegiate adaptive athletics program that provides opportunities for competitive wheelchair and adaptive sports to students and community members with disabilities. The monies may be spent only when the university collects matching monies of gifts, grants and donations for intercollegiate adaptive athletics program from sources other than this state. Universities may spend the monies only on scholarships, equipment, uniforms, travel expenses and tournament fees for participants in the intercollegiate adaptive athletics program. The monies may not be used for administrative costs, Personal Services or Employee Related Expenditures. (General Appropriation Act footnote)
- ^{2/} The Arizona Board of Regents shall distribute monies appropriated for Washington D.C. internships in equal amounts to each of the 3 universities under the jurisdiction of the board to provide student internships in Washington D.C. in partnership with a third-party organization selected by the Arizona Board of Regents. (General Appropriation Act footnote)
- ^{3/} Within 10 days after the acceptance of the universities' semiannual all funds budget reports, the Arizona Board of Regents shall submit a current year expenditure plan to the Joint Legislative Budget Committee for review. The expenditure plan shall include the use of all projected tuition and fee revenues by expenditure category, including operating expenses, plant fund, debt service and financial aid. The plan shall include the amount by which each expenditure category is projected to increase over the prior year and shall provide as much detail as the university budget requests. The plan shall include the total revenue and expenditure amounts from all tuition and student fee

revenues, including base tuition, differential tuition, program fees, course fees, summer session fees and other miscellaneous and mandatory student fee revenues. (General Appropriation Act footnote)

- 4/ 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)
- 5/ General Appropriation Act funds are appropriated as an Operating Lump Sum with Special Line Items by Agency.

Operating Budget

The budget includes \$2,403,000 and 25.9 FTE Positions from the General Fund in FY 2020 for the operating budget. FY 2020 adjustments are as follows:

Statewide Adjustments

The budget includes an increase of \$39,600 from the General Fund in FY 2020 for statewide adjustments. *(Please see the Agency Detail and Allocations section.)*

Adaptive Athletics

The budget includes \$160,000 from the General Fund in FY 2020 for Adaptive Athletics. FY 2020 adjustments are as follows:

New Program

The budget includes an increase of \$160,000 from the General Fund in FY 2020 for an intercollegiate adaptive athletics program. ABOR is required to distribute monies in this line item to each university under the jurisdiction of the board. Universities may only use this appropriation when matching monies are collected, and may only use monies for scholarships, equipment, uniforms, travel expenses, and tournament fees for program participants.

Arizona Teachers Academy

The budget includes \$15,000,000 from the General Fund in FY 2020 for the Arizona Teachers Academy. FY 2020 adjustments are as follows:

Program Expansion

The budget includes an increase of \$15,000,000 from the General Fund in FY 2020 for expansion of the Arizona Teachers Academy.

The FY 2018 Higher Education Budget Reconciliation Bill (BRB) established the Arizona Teachers Academy, which was intended to encourage Arizona residents to enter the teaching profession and commit to teach in Arizona public schools. The academy grants an annual waiver for all tuition and fees associated with enrollees' program of study in exchange for teaching in an Arizona public school 1 year for each year they received a tuition waiver.

The law did not provide additional funding to the universities for the program.

The FY 2020 Higher Education BRB expands the academy to include both resident and non-resident students enrolled in education and non-education majors, community college students enrolled in post-baccalaureate teacher certification programs, and teachers seeking a national board certification. Chapter 266 also requires ABOR to develop centralized administrative processes for the academy, including distributing appropriated monies to eligible postsecondary institutions, and set annual scholarship amounts for the academy at:

- \$10,000 for non-resident university students
- \$5,000 for resident university students
- \$3,000 for community college students
- \$2,500 for national board certification students

In addition, the FY 2020 Higher Education BRB established the Arizona Teachers Academy Fund and requires the appropriation for the academy to be reduced each fiscal year by the amount of monies remaining in the fund at the end of the prior fiscal year.

ABOR plans to use \$450,000 of the appropriated amount to fund administrative costs and implement a marketing campaign for the academy, \$500,000 to fund approximately 200 national board certification students, and \$350,000 to fund induction services for students after graduation. The remaining \$13.7 million will be distributed to universities and participating community colleges based on enrollment in each respective education program, which is expected to fund up to 2,000 undergraduate students, 200 graduate students, and 500 community college students.

(Please see the Other Issues - Statutory Changes section for more information.)

ABOR reports that 221 students enrolled in the academy in FY 2018 and 464 students enrolled in FY 2019.

Arizona Teachers Incentive Program

The budget includes \$90,000 from the General Fund in FY 2020 for the Arizona Teachers Incentive Program (ATIP). This amount is unchanged from FY 2019.

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 2018, 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 2020 for the Arizona Transfer Articulation Support System (ATASS). This amount is unchanged from FY 2019.

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 also contribute \$277,200 to the system each year.

Washington D.C. Internships

The budget includes \$300,000 from the General Fund in FY 2020 for Washington D.C. Internships. FY 2020 adjustments are as follows:

New Program

The budget includes an increase of \$300,000 from the General Fund in FY 2020 to provide student internships in Washington D.C. The budget requires ABOR to distribute monies in this line item in equal amounts to each university under the jurisdiction of the board to provide internships in partnership with a third-party organization. These monies will fund approximately 40 student internships each year.

Western Interstate Commission Office

The budget includes \$153,000 from the General Fund in FY 2020 for the Western Interstate Commission Office. This amount is unchanged from FY 2019.

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 \$4,078,000 from the General Fund in FY 2020 for WICHE student subsidies. This amount is unchanged from FY 2019.

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.

ABOR estimates it will provide subsidies to 163 Arizona students in FY 2020, which is (1) fewer than FY 2019. 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:

- Statutory Changes
- Long-Term Budget Impacts
- Cost Containment Report
- Land Trust Funds
- Arizona Financial Aid Trust
- Tuition Revenues
- 2003 Research Infrastructure Refinancing
- 2017 University Capital Infrastructure Funding
- One-Time Funding
- Intellectual Property & Technology Transfer Royalties
- University System Summary Tables

Statutory Changes

The Higher Education BRB makes the following statutory changes:

- As session law, continue to suspend the statutory requirement that the state provide a 2:1 ratio of state funding to student fees deposited into the Arizona Financial Aid Trust (AFAT).
- As permanent law, amend A.R.S. § 35-146 to allow each university to retain revenue from tuition and fees instead of remitting those monies to the State Treasurer.
- As permanent law, require universities to deposit 20% of cumulative net income exceeding \$1.0 million for licensure and royalty agreements to the Arizona Financial Aid Trust. Universities previously were required to deposit 20% of net income to the General Fund for the first 3 years of an agreement and 20% of gross revenues to the General Fund after the first 3 years.
- As permanent law, require universities to deposit 20% of cumulative net income exceeding \$1.0 million for the sale of intellectual property to the Arizona Financial Aid Trust. Universities previously were required to deposit 25% of gross revenues to the General Fund.

Teachers Academy Provisions

- As permanent law, expand eligibility for the Arizona Teachers Academy to include resident and non-resident university students enrolled in education and non-education majors, community college students enrolled in a post-baccalaureate teacher certification program, and teachers seeking a national board certification.
- As permanent law, in addition to STEM programs, require the Arizona Teachers Academy to include accelerated models for special education and students committed to teaching in critical need areas of the state.
- As permanent law, set Arizona Teachers Academy scholarships at \$10,000 for graduate students, \$5,000 for undergraduate students, \$3,000 for community college post-baccalaureate students, and \$2,500 for teachers seeking national board certification, and require scholarships to be awarded after all other aid received.
- As permanent law, require ABOR, in consultation with eligible postsecondary institutions, to develop centralized administrative processes for the Arizona Teachers Academy and establish criteria for distributing appropriated monies to eligible institutions.
- As permanent law, limit expenditures of monies appropriated for the Arizona Teachers Academy to scholarships, induction services, marketing and promotion and administration of the program. Caps spending for administrative and marketing expenses at 3%.
- As permanent law, cap tuition waivers for the Arizona Teachers Academy at 4 years (8 semesters) for university students and 2 years (4 semesters) for community college students in post-baccalaureate programs.
- As permanent law, require non-Education majors in the Arizona Teachers Academy to complete one or more teacher preparation courses prior to graduation.
- As permanent law, not allow universities and community colleges to charge the remaining balance of tuition and fees if the waiver provided does not cover the total cost.
- As permanent law, require the Arizona Teachers Academy teaching commitment (one year of support for every one year of teaching) for students concurrently teaching and receiving support to begin after completion of the program.
- As permanent law, require ABOR to establish repayment processes for students who fail to meet Arizona Teachers Academy service requirements.
- As permanent law, establish the non-appropriated Arizona Teachers Academy Fund consisting of legislative appropriations. The fund will be administered by ABOR and the monies in the fund will be non-lapsing.
- As permanent law, require that the General Fund appropriation for the Arizona Teachers Academy be reduced each fiscal year by the amount of unexpended monies in the Arizona Teachers Academy Fund from the prior fiscal year.
- As permanent law, require ABOR to annually report by March 1 of each year to JLBC and OSPB information on Arizona Teachers Academy enrollment and the number of graduates receiving induction services, and information for monies committed from the fund in the current fiscal year.
- As permanent law, require ABOR to include in the existing Arizona Teachers Academy annual report information on enrollment by program type and year of enrollment, the number of students receiving induction services, the number of students who have completed repayment agreements, and ABOR's annual funding distribution by eligible institution. Changes annual report date from July to September 1.
- As permanent law, repeals a section of the FY 2019 Higher Education BRB that continued the Arizona Teachers Academy after the 2017-2018 academic

year. The FY 2020 Higher Education BRB makes the program permanent.

Long-Term Budget Impacts

As part of the budget's 3-year spending plan, universitywide General Fund costs are projected to decrease by \$(35.5) million in FY 2021 below FY 2020, and increase by \$712,800 in FY 2022 above FY 2021.

These estimates are based on:

- A \$(35,000,000) decrease in FY 2021 for the removal of one-time funding for capital improvements or operating expenditures. *(Please see the One-Time Funding narrative for more information.)*
- A \$(1,016,300) decrease in FY 2021 and a \$150,900 increase in FY 2022 to adjust for university debt service costs. *(Please see the 2003 Research Infrastructure Refinancing narrative for more information.)*
- Increases of \$550,800 and \$561,900 in FY 2021 and FY 2022, respectively, to increase the universities' annual Capital Infrastructure Funding appropriation by 2% each year. (The GDP inflator is currently projected at 2.5% for FY 2021 and 2.7% for FY 2022; statute funds the lesser of 2% or the actual rate). *(Please see the 2017 University Infrastructure Funding narrative in the Capital Outlay - ABOR Building System section for more information.)*

Cost Containment Report

Pursuant to A.R.S. § 15-1650.03B, ABOR is required to annually report cost containment information for each of the universities. In October 2018, ABOR reported the following:

Tuition and Fees Increases (FY 2009 - FY 2018)

- ASU: 68.3%
- NAU: 70.9%
- UA: 80.4%

Growth in Faculty and Staff Salaries (FY 2009 - FY 2018)

- ASU: 52.6% salary increase per FTE;
24.9% increase in faculty FTEs
- NAU: 46.4% salary increase per FTE;
23.2% increase in faculty FTEs
- UA: 40.3% salary increase per FTE;
5.3% increase in faculty FTEs

Changes in Credit Hour Requirements (FY 2009 - FY 2018)

ASU reported no changes in credit hour requirements, NAU reported a 1 credit hour increase for Civil Engineering, and UA reported 10 program changes that

increased credit hour completion requirements by up to 9 credit hours.

Faculty Time Allocation

The universities report that either 40% (ASU and UA) or 50% (NAU) of faculty time is allocated to teaching, 20% is allocated to other activities – administrative duties, personal growth, services – and the remainder of faculty time is allocated to research and scholarship.

Non-Traditional and Low-Cost Degree Options

All 3 universities report community college pathway programs, and NAU and UA offer tuition freezes for incoming freshman, which freezes tuition rates for 8 consecutive semesters. In addition, the universities offer the following options:

- ASU: 3-year bachelor's degree programs, 10% tuition reductions for select programs in the College of Interdisciplinary Arts, and accelerated degree programs for obtaining a bachelor's and master's degree.
- NAU: Personalized learning and concurrent enrollment programs to obtain select associate's and bachelor's degrees in 2.5 years.
- UA: Accelerated master's programs and degree obtainment through distance campus networks

Cost Containment Actions

All 3 universities report utilizing contract renegotiations, refinancing of outstanding debt, and organizational restructuring to contain costs. In addition, the universities reported the following actions:

- ASU: Energy and water usage reductions, and eliminating jobs through layoffs, early retirement, and elimination of vacant positions.
- NAU: Low numbers of faculty and staff per student, low faculty and staff salary rates, shared services, and activity consolidations.
- UA: Low costs per degree and energy efficiency programs.

Land Trust Funds

As a beneficiary of the Arizona State Land Trust, ABOR receives monies generated from lease revenues and the proceeds from land sales that are invested into "permanent funds," 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. ABOR amended Board Policy 3-606 in 2017 to direct all Universities Land Fund incremental revenues from Proposition 123 (distributions beyond the first 2.5% distribution rate) to the universities for general use, rather than the Eminent Scholars Grant.

Table 1 compares university land trust revenues from FY 2015 (prior to Proposition 123) and FY 2020. The funds will have estimated revenues of \$11,846,400 in FY 2020. (Please see the Land Department narrative for more information.)

State Land Trust Revenues: Universities ^{1/}		
	FY 2015	FY 2020
Military Institute	\$ 83,800	\$ 59,000
Normal Schools	296,600	565,200
A&M Colleges	445,100	1,050,900
School of Mines ^{2/}	499,800	1,017,400
Universities Land Fund	3,834,800	9,153,900
<i>University Land Code</i>	<i>2,175,400</i>	<i>2,137,800</i>
<i>U of A Land - 1881</i>	<i>1,659,400</i>	<i>7,016,100</i>
Total	\$ 5,160,100	\$ 11,846,400

^{1/} Includes income from the Treasurer's distribution and lease revenues from the universities' state land trust property.
^{2/} Only the University of Arizona receives monies from the School of Mines Fund.

Arizona Financial Aid Trust

Pursuant to A.R.S. § 15-1642, General Fund monies match financial aid tuition surcharges collected from university students for the Arizona Financial Aid Trust (AFAT). The AFAT fee is 1% of the full-time resident undergraduate base tuition rate, or \$62-\$110 in FY 2019 on the main campuses, depending on the university. All students pay roughly the same fee, except part-time students, who pay half the regular fee.

The FY 2020 Higher Education BRB continues to suspend the statutory requirement that the state provide a 2:1 ratio of state funding to student fees in FY 2020. The budget also maintains each university's allocation of General Fund AFAT appropriations at their FY 2019 level, which appears in the individual university budgets.

Based on student fees contributed to AFAT in FY 2018, the state's match would be \$35,798,200, or an increase of \$25,757,000 over the \$10,041,200 appropriation in FY 2020.

Each university retains 25% of its annual AFAT student fees and state contributions in an AFAT endowment account. The remaining 75% of the student fees and state contributions, as well as 75% of the endowment's annual interest earnings, are used to provide immediate assistance for needy in-state students. In FY 2018, AFAT disbursed \$26,568,100. (Please see Table 7 for additional information on financial aid.)

Tuition Revenues

The FY 2017 Higher Education BRB amended 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 keep tuition and fee monies separate from other revenue sources, the FY 2017 Higher Education BRB was intended to make the university funding structure more transparent. The FY 2017 Higher Education BRB also amended A.R.S. § 35-146 to eliminate the requirement that the universities remit

appropriated tuition revenues to the Treasurer, also effective beginning FY 2019. This provision was further clarified with an additional amendment to A.R.S. § 35-146 in the FY 2020 Higher Education BRB and does not change the current split between appropriated and non-appropriated tuition monies.

The July 2018 tuition revenue report projects FY 2019 gross tuition and fees to be \$3.1 billion systemwide. Of this amount, \$1.3 billion is appropriated while \$1.8 billion is non-appropriated.

The reported gross tuition revenues reflect the amounts the universities would receive if all students paid full published tuition and fee rates. The actual amounts paid by students after accounting for tuition waivers and other gift aid awarded by the universities would constitute net tuition. The universities project \$749.6 million in tuition waivers and awards in FY 2019, for a total net tuition of \$2.3 billion.

A FY 2019 General Appropriation Act footnote modified the reporting requirements that govern ABOR's annual tuition revenue report. Rather than reporting on the incremental use of only appropriated tuition, beginning in FY 2019, ABOR must account for the expenditure of *all* tuition monies using the following categories: operating expenses, plant fund, debt service, and financial aid. ABOR is required to report on the total amount of tuition monies spent on each category as well as any change in each category versus the prior year.

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.

Due to subsequent refinancing, the FY 2017 Higher Education BRB amended A.R.S. § 15-1670 to revise the FY 2018 to FY 2031 research infrastructure appropriations to correspond to the universities' current debt service schedules. *(Please see Table 2 for more information.)*

The budget includes a decrease of \$(19,900) from the General Fund in FY 2020 to adjust appropriations for research infrastructure lease-purchase payments to the universities' actual debt service obligations.

The \$(19,900) decrease in the FY 2020 budget reflects the lower costs in FY 2020 compared to FY 2019. Of this amount, the General Fund appropriations are adjusted \$(22,400) for ASU, \$3,300 for NAU, and \$(800) for UA.

Since this funding appears in A.R.S. § 15-1670, this funding does not appear in the FY 2020 General Appropriation Act. In total, the universities have issued \$482,500,000 in COPs for research infrastructure projects.

Table 2

FY 2018 – 2031 Research Infrastructure Appropriations

<u>Fiscal Year</u>	<u>ASU</u>	<u>NAU</u>	<u>UA</u>	<u>Total</u>
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.

2017 University Capital Infrastructure Funding

Laws 2017, Chapter 328 established A.R.S. § 15-1671, which provides General Fund appropriations from FY 2019 - FY 2043 for new university research facilities, building renewal, or other capital construction projects. The law appropriated \$27,000,000 to the universities in FY 2019 and increases the appropriation each year thereafter by the lesser of 2.0% or inflation.

The FY 2020 appropriations are allocated to each university as follows:

- ASU: \$12,165,900
- NAU: \$4,611,300
- UA: \$10,762,700
- TOTAL: \$ 27,539,900

The original FY 2019 allocated amounts are based on each university's share of the systemwide transaction privilege tax (TPT) collections in FY 2016. *(Please see the 2017 University Infrastructure Funding narrative in the Capital Outlay - ABOR Building System section for more information.)*

One-Time Funding

Section 155 of the FY 2020 General Appropriation Act appropriated \$35.0 million to the universities from the General Fund in FY 2020 for one-time capital improvements or operating expenditures. Of this amount, \$18.9 million was appropriated to ASU, \$6.7 million to NAU, and \$9.5 million to UA.

This one-time allocation has been funded since FY 2017. See *Table 3* for a history of the allocation by university.

Table 3

History of One-Time University Funding

	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY 2020</u>
ASU	\$ 7.0	\$ 6.6	\$ 4.2	\$18.9
NAU	4.0	3.2	1.6	6.7
UA	<u>8.0</u>	<u>3.2</u>	<u>2.2</u>	<u>9.5</u>
Total	\$19.0	\$13.0	\$ 8.0	\$35.0^{1/}

^{1/} Numbers do not add due to rounding.

Intellectual Property & Technology Transfer Royalties

In conjunction with annual General Fund appropriations that fund university research facilities *(please see 2003 Research Infrastructure Refinancing section above for more information)*, A.R.S. § 15-1670 required the

universities to deposit into the General Fund 20% of income from licensure and royalty payments and 25% of income from the sale or transfer of intellectual property during the preceding fiscal year (not to exceed the state's annual General Fund appropriation for the research facilities).

The universities have previously interpreted "income" as gross royalties net of expenditures on legal fees (required to secure patents, etc.), the costs of managing the technology transfer process, and distributions of revenues to the inventors and their laboratories.

Laws 2017, Chapter 328 amended A.R.S. § 15-1670 to clarify the university technology transfer sale and royalty income sharing policy by requiring that for all new agreements entered into after April 30, 2017, the universities shall annually deposit:

- For the first 3 years of each licensure or royalty contract, 20% of the net income generated in the prior fiscal year.
- After the third year of each contract, 20% of the gross annual revenues generated by the contract.
- For any sale or transfer of intellectual property, 25% of the gross revenues generated by the transaction.

The law clarified that the universities may not deduct past years' cumulative losses from the amount of revenue or income subject to deposit into the General Fund.

The law also made permanent the technology transfer income sharing provisions, which would otherwise have expired in FY 2031. However, because the universities are not required to distribute more to the General Fund than they receive in capital appropriations under A.R.S. § 15-1670 and A.R.S. § 15-1671 in any given year, the income sharing will effectively cease in 2043, when the final appropriations under A.R.S. § 15-1671 are made.

The FY 2020 Higher Education BRB further amended A.R.S. § 15-1670 to remove requirements for deposit of income from licensure and royalty payments to the General Fund, and instead requires universities to deposit 20% of cumulative net income exceeding \$1.0 million to the AFAT. The amendment also defines net income as payments received minus expenses related to revenue shares to inventors and third-party distributions, pursuing, commercializing, licensing and litigating intellectual property, reimbursement holds, and operation management fees.

In terms of FY 2018 gross royalty revenues, ASU reported \$760,700 of licensing and royalty revenues, NAU reported \$36,200, and UA reported \$4.1 million.

All 3 universities reported \$0 net income on agreements entered into before April 30, 2017. For agreements entered into after this date, ASU reported \$1,800, NAU reported \$600, and UA reported \$13,900. These amounts are to be deposited to the General Fund.

University System Summary Tables

The University 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 2020 is \$6.7 billion, including \$774.3 million from the General Fund and \$3.1 billion of tuition/fee collections. This latter amount is not adjusted for any FY 2020 tuition rate changes. *Table 4* summarizes the FY 2020 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 financial aid, facilities (plant fund), debt service, and some of their operating budget. Total gross tuition collections for the Arizona University System equal an estimated \$3.1 billion in FY 2019. Net tuition equals an estimated \$2.3 billion in FY 2019 (see *Table 5*).

Tuition Rates

ABOR approved FY 2020 tuition rates on April 11, 2019.

- ASU increased tuition rates by 3.9% - 4.8% for undergraduate students and 4.1% - 4.5% for graduate students. ASU also adopted a new college fee calculation where students will be charged 1 of 4 fees depending on their program of enrollment.
- Since FY 2009, NAU has maintained a guaranteed tuition model for incoming freshmen. As a result, NAU did not increase tuition for current students, but increased tuition and mandatory fees by 2.7% - 2.9% for incoming undergraduate students, and 6.9% - 7.0% for graduate students.
- UA began a similar tuition guarantee program in FY 2015. UA increased tuition and fees by between 1.0% - 1.8% for incoming undergraduate students and 0.0 - 1.7% for graduate students.

Table 6 only includes major tuition categories at main university campuses. A comprehensive list can be found on the [ABOR website](#).

Financial Aid

The Arizona University System distributed \$2.7 billion in financial aid in FY 2018. Of the \$2.7 billion total financial aid distributions in FY 2018, the federal government financed \$1.2 billion and university institutional sources provided \$974 million. The latter includes \$767 million of foregone tuition collections in the form of waivers and awards. (Please see *Table 7* for details.)

Enrollment

Between fall 2017 and fall 2018, university enrollment increased from 172,389 FTE to 178,432, or 3.5%, as displayed in *Table 8*. Spring enrollment is traditionally lower than the fall.

Table 4

FY 2020 Summary of Spending Authority

	Appropriated Funds			Non-Appropriated Funds		Total ^{3/}
	General Fund	Collections Fund ^{1/}	Tech & Research Fund (TRIF)	Federal Funds	Other Funds ^{2/}	
ABOR	\$ 22,397,700	\$ 0	\$ 0	\$ 0	\$ 6,974,700	\$ 29,372,400
ASU	341,916,800	659,582,400	3,600,000	493,743,300	1,778,088,200	3,276,930,700
NAU	117,250,900	161,100,200	0	103,299,500	336,395,000	718,045,600
UA-Main	215,808,900	386,248,600	0	272,407,300	1,115,343,400	1,989,808,200
UA-Health Sciences	76,897,700	53,623,800	0	130,485,900	416,941,600	677,949,000
Total	\$774,272,000	\$1,260,555,000	\$3,600,000	\$999,936,000	\$3,653,742,900	\$6,692,105,900

^{1/} This amount excludes FY 2020 tuition rate changes.

^{2/} Expenditures of non-appropriated funds include transfers of funds to non-operating accounts for capital and debt service expenses. The total expenditures of gross non-appropriated tuition are estimated to be \$1,810,820,400 based on FY 2019 amounts, as reflected in *Table 4*. This amount excludes FY 2020 enrollment growth and tuition rate changes.

^{3/} Total universitywide funding includes gross tuition revenues.

Table 5

Use of FY 2019 Tuition/Fees by University ^{1/}

	<u>ASU</u>	<u>NAU</u>	<u>UA</u>	<u>Total</u>
<u>Appropriated</u>				
Operating Budget ^{2/}	\$ 660,074,400	\$160,958,900	\$438,725,500	\$1,259,758,800
<u>Non-Appropriated</u>				
Operating Budget ^{3/}	\$ 632,392,100	\$ 86,160,300	\$213,905,200	\$ 932,457,600
Financial Aid ^{4/}	401,779,500	132,894,800	214,948,100	749,622,400
Plant Fund	20,000,000	1,000,000	4,000,000	25,000,000
Debt Service	<u>59,588,000</u>	<u>16,000,000</u>	<u>28,152,400</u>	<u>103,740,400</u>
Subtotal	\$1,113,759,600	\$236,055,100	\$ 461,005,700	\$1,810,820,400
Total Gross Tuition ^{5/}	\$1,773,834,000	\$397,014,000	\$899,731,200	\$3,070,579,200
Net Tuition ^{5/}	\$1,372,054,500	\$264,119,200	\$684,783,100	\$2,320,956,800

^{1/} As reported in FY 2019 Tuition Revenue Report submitted by ABOR in July 2018.

^{2/} Appropriated tuition includes \$(44.1) million adjustment made by ABOR to the amounts originally included as part of the FY 2019 state budget to reflect estimated revenue adjustments resulting from the tuition setting process in spring 2018.

^{3/} Includes non-appropriated tuition revenues to be expended on instruction, organized research, public service, student services, auxiliary enterprises, and institutional support.

^{4/} Financial aid represents scholarship allowances provided by the universities (excluding federal loans, private grants, etc.) to offset the cost of tuition. Amounts include scholarship awards and tuition waivers except employee tuition reductions, which are recorded as employee benefit expenses.

^{5/} The reported gross tuition revenues reflect the amounts the universities would receive if all students paid full published tuition and fee rates. The actual amounts paid by students after accounting for tuition waivers and other gift aid awarded by the universities constitutes net tuition.

Table 6

Arizona University System
FY 2020 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	\$11,338	4.8%	\$12,608	4.1%	\$29,428 ^{2/}	3.9%	\$32,288	4.5%
NAU	\$11,896	2.9%	\$11,726	6.9%	\$26,516	2.7%	\$25,730	7.0%
UA	\$12,671	1.8%	\$13,207	1.7%	\$36,698	1.0%	\$33,334	0.0%

^{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/} ABOR approved a rate of \$31,828 for international undergraduate students at ASU.

Table 7

FY 2018 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	\$311,773.1	\$807.3	\$767,265.7	\$231,152.9	\$1,310,999.0
Loans	828,296.1	268.0	0.0	355,500.3	1,184,064.4
Employment	<u>10,777.0</u>	<u>0.0</u>	<u>206,715.5</u>	<u>0.0</u>	<u>217,492.5</u>
Total	\$1,150,846.2	\$1,075.3	\$973,981.2	\$586,653.2	\$2,712,555.9

^{1/} Information from ABOR FY 2018 Financial Aid Report.

^{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.

Table 8

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

	<u>Fall</u> <u>2017</u>	<u>Spring</u> <u>2018</u>	<u>Fall</u> <u>2018</u>	<u>Fall 2017</u> <u>To Fall 2018</u>	<u>Fall 2018</u> <u>Residents</u>
ASU-Tempe	63,342	61,830	66,521	5.0%	34,999
ASU-DPC	18,080	18,039	19,299	6.7%	10,601
ASU-East	7,384	7,126	7,568	2.5%	4,042
ASU-West	<u>9,044</u>	<u>9,033</u>	<u>10,346</u>	<u>14.4%</u>	<u>5,036</u>
ASU Subtotal	97,850	96,028	103,734	6.0%	54,678
NAU	29,289	28,092	29,274	-0.1%	19,559
UA-Main	39,374	37,282	39,632	0.7%	23,999
UA-Health Sciences	<u>5,876</u>	<u>5,060</u>	<u>5,792</u>	<u>-1.4%</u>	<u>4,485</u>
UA Subtotal ^{2/}	45,250	42,342	45,424	0.4%	28,484
Total	172,389	166,462	178,432	3.5%	102,721

^{1/} Adjusted FTE counts as reported by ABOR include both graduate and undergraduate students and exclude excess credit hours taken by students. Spring enrollment figures are the average of the full academic year (spring and fall semesters).

^{2/} The University of Arizona revised fall 2017 and spring 2018 FTE counts from prior year reports.