

EXECUTIVE SUMMARY

Item Name: **FY 2020 State Budget Requests**

 Action Item

Requested Action: The board office asks the board to approve the Arizona State University, Northern Arizona University, University of Arizona, and ABOR office FY 2020 state budget requests for submittal to the Governor and Legislature by September 4, 2018.

Background/History of Previous Board Action

- Beginning in FY 2017, the board adopted a new model by which to request state appropriations in support of public universities. The new model was developed by the Enterprise Executive Committee in response to Governor Ducey’s request of the board to develop a “sustainable-enterprise financial model that counts on the state as one of many investors.”
- The model identifies the state’s investment interest as providing university access for Arizona residents. Therefore, state investments are defined in terms of per resident student support.
- Historically universities relied heavily on state investments and prior to the recession, state support covered approximately 75 percent of a resident student’s cost of education. State support is currently at 34 percent of the cost.
- In December of 2017, the state required ABOR to complete a cost-per-student calculation. This number, \$15,796, is based on FY 2016 costs and was published in the December 2017 Cost Study. The study determined that in FY 2016, Arizona’s public universities cost per student was lower than the aggregated national average of four-year public institutions, including both research and non-research universities.

Discussion

50/50 Funding Model for Resident Students

- Currently the state funds approximately 34 percent of the cost of education. Recognizing that state finances will not permit a return to the 75 percent funding level in the near future, and that the universities have some ability to subsidize resident students with other revenue streams, the university enterprise requested

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EXECUTIVE SUMMARY

the state fund 50 percent of a resident student's cost of education. That calculation is shown below:

Average education cost:	\$15,796
50% of costs:	\$ 7,898
Current 34% state funding level:	<u>\$ 5,329</u>
Shortfall:	\$ 2,569

- In order to achieve the 50 percent funding goal at current resident FTE enrollment of 102,295, the state would need to increase state appropriations by \$262,795,800.

Resident Student Growth

- In addition to funding for current resident student enrollment, the universities anticipate resident student growth of 2,841 from fall 2017 to fall 2018. This number will be updated as each university finalizes fall enrollment counts.
- State support for the additional resident students at 50 percent funding of \$5,329 equates to \$15,139,700.

Enterprise FY 2020 Budget Request

- For FY 2020, the proposed resident student budget request keeps FY 2022 as the year in which the state will reach the 50 percent funding goal.
- To accomplish that, the EEC recommends phasing in the required funding over three years. The amount requested for FY 2020 in new state appropriations is \$87.6 million system wide.
- The three-year phase-in is based on current student counts. The recommendation also requests funding for new students to maintain current per student funding levels. This is consistent with other major state funding formulas that support services and programs for individuals, such as K-12, AHCCCS and DES, which increase base appropriations each year to accommodate new qualified individuals.
- Funding caseload growth will align the resident student funding model with these other state funding models, and allow the state to fund individuals rather than institutions.

EXECUTIVE SUMMARY

- The following table summarizes the FY 2020 request.

	50/50 Model 3-Year Phase-In	Resident Growth	Total
ASU	\$46,951,900	\$9,453,700	\$56,405,600
NAU	\$17,575,200	\$2,541,900	\$20,118,100
UA	\$23,070,500	\$3,144,100	\$26,214,600
Total	\$87,598,600	\$15,139,700	\$102,738,300

Enterprise FY 2019 Supplemental Request

- During FY 2019, the state increased health care premiums on employers due to a shortfall in the state’s Health Insurance Trust Fund. The cost of this increase to the universities, net of the appropriations intended to cover increased costs in general fund appropriations, is estimated at \$10.1 million as shown below. Requesting these dollars will provide the universities an opportunity for a broader discussion on university participation in HITF.

HITF FY 2019 Supplemental	
ASU	\$5,269,000
NAU	\$430,100
UA	\$4,760,100
Total	\$10,459,200

Statutory Formulas

- In addition to the Arizona Board of Regents budget request, the budget request will report the results of two statutory funding formulas.
- Building Renewal:** A.R.S. §41-793.01 requires the JLBC to establish a building renewal funding formula for the state building systems, including the ABOR building system. That formula is based on age, replacement value and expected useful building life. For FY 2019, the formula calculation equates to \$148.4 million. Last year the state appropriated \$0 toward this formula. The ABOR office is still collecting the data for the FY 2020 calculation. It will be available in early September.
- Arizona Financial Aid Trust:** A.R.S. §15-1642 established the AFAT fund consisting of student fees and state appropriated funds. This trust fund is used to: (1) provide aid to students with verifiable financial needs, including students

EXECUTIVE SUMMARY

who are underrepresented in the population of the university; (2) assist students who, by virtue of their special circumstances, present a unique need for financial aid; and (3) create an endowment for future financial aid.

The established statutory formula calls for the state to provide a two-to-one match of the collected student fees. The state has not fulfilled its matching requirement since FY 2008, maintaining appropriations at \$10 million. The FY 2020 calculated state match is based on actual student fees collected during FY 2018. For FY 2020, the state matching requirement would be \$25.8 million.

Other Budget Elements

- The state also provides funding for the following ABOR programs. The current budget proposal does not include additional resources for these programs.
 - WICHE student subsidies (current appropriation is \$4,086,000): The Western Interstate Commission for Higher Education (WICHE) provides partial financial support and preferential access for Arizona residents who choose careers in certain health professions, which are not available at Arizona's three public universities. The current appropriation level supports approximately 166 students. At its peak (FY 2008), the program supported 203 students.
 - Arizona Transfer Articulation Program (current appropriation is \$213,700): Established by A.R.S. §15-1824, ATASS is a joint initiative among public community colleges and universities to facilitate the efficient transfer of course credits.
 - Arizona Teachers Incentive Program (current appropriation is \$90,000): The Arizona Teachers Incentive Program (ATIP) is a loan forgiveness program at UA College of Education for students of deaf and blind education. Students may earn forgiveness by teaching in an Arizona deaf and blind program post-graduation. Statute requires \$50,000 be distributed to 10 students at \$5,000 per student. The balance is used for instructional support.

Committee Review and Recommendation

- Historically, the universities submitted budget requests on October 1 of each year. The later submittal date allowed the universities to provide better fall enrollment data. This year, the Governor's office asked for submission on September 4. Due to the accelerated schedule, the ABOR office is asking the board to review the request without committee review.

EXECUTIVE SUMMARY

Statutory/Policy Requirements

- A.R.S. §35-113 requires state budget units to submit a budget request.
- ABOR Policy 3-401 requires board review and approval before budget requests are submitted.