

EXECUTIVE SUMMARY

Item Name: STUDY SESSION: BUDGET PLANNING, ORGANIZATIONAL DESIGN, AND PROGRAM DELIVERY OPTIONS

Action Item Discussion Item Information Item

Issue: The Board is asked to discuss in a study session format the impact of the national economic downturn that has resulted in dramatic cuts to the FY 2009 state General Fund appropriations to the Arizona University System. This discussion will include organizational design and alternative academic program delivery options.

Background

- The current national economic downturn has negatively impacted the state of Arizona to a greater magnitude than most other states. Arizona’s economy is heavily dependent on population growth that has driven a booming housing market. The heart of the current economic downturn lies in the housing market.
- Arizona’s state revenues rely heavily on sales tax. With the sharp decline in the housing market comes a sharp decline in all categories of sales tax collections. The latest JLBC Monthly Fiscal Highlights, reporting January 2009 revenue collections, states:

“The release of another month of economic data points to an economy that is rapidly deteriorating. Revised employment data reveals that job losses in Arizona in 2008 were significantly higher than previously estimated. Instead of shedding 116,500 jobs in 2008 as previously reported, the state experienced a loss of 152,300 jobs. The labor market worsened further in January and now the job decline is 5.9% compared to the same month in the prior year, the largest contraction since April 1946. Building permitting activity in 2008 reached its lowest level since 1975. Air passenger traffic at Sky Harbor International Airport fell by 5.4% in 2008, the steepest decline since 1980. The median price of a single family home in Greater Phoenix in January was 44.0% below the level in the same month last year.”

- In response to the continuing economic deterioration, the Legislature enacted a revised FY 2009 budget during the First Special Session in the last week of January, and Governor Brewer signed the bill on January 31. These revisions resolved a projected \$1.7 billion budget shortfall due to lower than expected revenue collections.

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- This \$1.7 million “budget fix” consisted of \$590 million in agency and university cuts; \$591 million in agency fund balance sweeps; and \$500 million in anticipated funding from the American Recovery and Reinvestment Act of 2009 passed by Congress and signed by President Obama on February 17.
- The Legislature imposed \$141.5 million in mid-year FY 2009 cuts on the Arizona University System, with only five months remaining in the fiscal year to implement these cuts.
- These cuts represent 24% of the total General Fund cuts to state agencies, while the universities made up only 10.8% of the state budget prior to the cuts—10.0% of the state budget after the cuts. This 10% share compares to 19.4% in 1979, 16.1% in 1989, and 12.7% in 1999.
- During this same 30-year period, FTE student enrollment has grown from 63,242 in FY 1979 to 118,743 in FY 2009, a dramatic 88% increase.
- In this context of reduced funding levels and a growing student population, the Board is asked to discuss the efforts underway by the universities and the ABOR central office to increase access and to increase the number of bachelor’s degrees awarded, while maintaining a quality educational experience for university students.
- The agenda for this study session is presented on page 3.

Strategic Implications

- The *2020 Vision* long-term strategic plan for the Arizona University System establishes a range of performance targets to 2020 that seeks to make Arizona competitive in educational attainment with its peers nationally over the next 12 years.
- Financial resources are instrumental to the System’s ability to achieve the goals and objectives outlined in the *2020 Vision*. The lower level Bronze targets are designed to be achievable even under a worst-case funding scenario. However, this level of achievement would fail to bring Arizona to national competitiveness in educational attainment by 2020.
- The current economic downturn and the accompanying reductions in state support to our universities will impact the ability of the System to achieve these long-term goals.

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Committee Review and Recommendation

The Strategic Planning, Budget and Finance Committee preliminarily discussed these issues at its February 19, 2009, meeting.

Recommendation

This is a discussion item only; no Board action is required.

STUDY SESSION AGENDA

A. Reports on FY 2009 and FY 2010 state budget issues and implementation of budget reductions (materials located behind tab A)

- a. Sandra Woodley will describe the FY 2009 budget cuts and impact on *2020 Vision* targets
- b. Presidents Crow, Haeger, and Shelton will describe implementation of FY 2009 cuts and planning for FY 2010

B: Report on American Recovery and Reinvestment Act of 2009 (federal stimulus legislation) (materials located behind tab B)

- a. Ted Ferris, QuadPro Consulting, will provide an update on the federal stimulus funding and how it may help the universities, along with an update on the work of FACT

C: Reports from university Presidents on organizational design and options for delivery of academic programs (materials located behind tab C)

- a. Presidents Crow, Haeger, and Shelton will describe their efforts to manage the budget reductions through organizational design and development of alternative models of delivery of academic programs

D: Report from Regent DuVal on Lumina planning grant (materials located behind tab D)

- a. Regent DuVal will describe the work agenda for the Lumina effort and how it will support the universities' organizational design work and development of alternative models of instructional program delivery

Study Session wrap-up and charge from the Board