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Contact: Sarah Harper, 602-402-1341, sarah.k.harper@azregents.edu

ABOR Rolls out New Proposed State Investment Model, FY17 Budget Request and Legislative Agenda

*State funding and regulatory reform initiatives embedded in
updated strategic plan*

(Flagstaff, Ariz.) - At its meeting today, the Arizona Board of Regents unveiled a new state investment model that proposes the state's ongoing financial relationship with the university system be designed to support resident students. Currently, the state funds about 34 percent of a resident student's cost of education, with public universities currently operating at a net loss for Arizona residents students. In order to ensure the state meets its constitutional obligation to keep tuition as nearly free as possible, the board is recommending that the legislature direct new appropriations to support resident students who enroll at its three public universities.

Higher education benefits both individuals and the state. In recognition of that, the board is requesting the state contribution grow its support of resident students to 50 percent over time. In fiscal year 2008, the state funded 72.2 percent and in FY 1998, 88.4 percent.

The board also approved its FY 2017 state operating budget request and 2016 legislative agenda, which includes a series of regulatory reform initiatives designed to promote greater innovation and entrepreneurialism among public universities, to reduce costs and increase operating efficiencies, while contributing to the long-term success of each university. All of these elements are embedded in an updated strategic plan that [Gov. Ducey called upon the board to deliver](#).

"Today's vote was a culmination of months of collaboration across the university enterprise to produce a plan that will continue to hold our universities to strict account for high quality outcomes, accelerate our alignment with K-12 to raise academic achievement, and provide legislators with a funding model that is tied to our mutual top priority – Arizona resident students," said ABOR Chairman Jay Heiler. "We are eager to work with Governor Ducey and the state Legislature to bring this new state support model to fruition so that we can work together to keep higher education affordable, accessible and supportive of our highly valuable Arizona residents."

On average, the annual per-student cost of education is approximately \$15,550. This figure includes costs related to academic programs, support services and operations and maintenance. Research and capital expenditures are not included in this figure.

In FY 2016, the state will provide \$5,302 per resident student. Through tuition and fees, resident students contribute an average of \$6,554. Universities cover the balance of costs, which means they are currently losing approximately \$3,694 per resident student. In FY 2016, the estimated total system-wide loss will be \$355 million.

The university system requests the FY 2017 state investment be based on a goal of the state increasing its resident student support to 50 percent of the cost of education (\$7,775). The university system is not requesting a new statutory funding formula. The request instead asks the state to view university performance and outcomes and align state support with its defined benefit. The 50 percent of resident student costs is a way to define and track state investment against university performance.

While the state does not currently fund all students at the 50 percent level, the proposed financial model seeks the following investment to move the system toward that goal:

FY 2016 Supplemental

Reduction restoration – Increasing the state share (\$24 M): The conclusion of the FY 2015 proved that some of the base budget assumptions for FY 2016 were incorrect. Most notably, actual revenues exceeded the forecast by nearly \$400 million. Increasing the university reduction from Gov. Ducey’s original proposal of \$75 million to the enacted \$99 million was unnecessary and should immediately be reversed. Restoring this \$24 million would increase the state’s per-resident-student support to \$5,552.

FY 2017 Request

Reduction restoration – Increasing the state share (\$33.4 million): After the FY 2016 supplemental and impacts from the Health Insurance Trust Fund (HITF) changes, the remaining cut will be \$67 million. The universities request the state restore half of this remaining reduction in FY 2017. Including the FY 2016 supplemental, this will raise the state’s per-resident-student support to \$5,900, or approximately 38 percent of the university system’s cost per resident student and reduce university operating losses to about \$3,096 per resident student.

Student growth (\$10.4 million): The state should cover 50 percent of the educational costs for anticipated student growth. To calculate this number, the universities propose using actual growth for the year preceding the budget year, in this case FY 2016 growth over FY 2015. For the FY 2017 request, the system will report this number by mid-September. Currently, the universities forecast growth of 1,339 new resident students.

Facility maintenance and operations (\$19.2 million): In addition to operating costs, Arizona’s public universities have significant capital costs. In FY 2014, the university system spent \$159 million on capital renewal projects. The universities request the state include \$200 per resident student on an ongoing basis to help offset resident students’ impacts on university capital.

One-time capital request (\$75 million): The university system is facing a capital crisis with over \$652 million in unmet renewal needs including high priority items such as fire alarms, roofs, and asbestos abatement. Further, student growth continues to create needs for additional square footage. The university system will provide a specific project list as part of this request and will provide matching dollars to further leverage state funding.

Decision Packages

The University of Arizona is requesting \$8 million to fund the University of Arizona Veterinary Medicine program at Oro Valley initiative. The request will fund building renovations that will enable 60 high

paying jobs, establish a \$24 million program in Oro Valley and develop well trained and much needed veterinarians for the state.

“We have embraced Governor Ducey’s request to take our enterprise approach further and ensure that our strategic plan is sustainable and that it addresses the needs of students and the business community that depends on their success,” said ABOR President Eileen Klein. “We believe that the new funding model strategic plan and university reform agenda approved today provide a solid strategy for long-term success of our public universities and the students they serve.”

The updated strategic plan includes four cornerstone goals that form the foundation for public university education in Arizona, each tied to a series of objectives necessary for success, metrics to measure progress, and quality markers to ensure our university system is performing at peak levels. The four goals are:

1. Educate - Drive student educational success and learning
2. Achieve - Advance educational achievement within Arizona
3. Discover - Discover new knowledge
4. Impact - Impact Arizona

These cornerstone goals will help our public universities deliver a high quality university education; lead the effort to increase the number of Arizonans with a college degree or certificate; create new knowledge, collaborations, inventions, and technology to solve critical problems and enhance lives; and engage and serve our communities through initiatives and partnerships focused on supporting, improving, and enhancing Arizona’s economy and competitiveness.

The regulatory reform items approved by the board for pursuit at the Legislature in 2016 include seeking: authorization to issue commercial paper and obtain commercial lines of credit to help manage cash flow and provide bridge financing for capital projects; the ability to develop independent benefits programs; and elimination of the state tuition remittance process and maintaining transparency by modifying reporting requirements to align with the ABOR business cycle. All of these approvals continue the regents’ efforts to build an enterprise model that reduces regulation, creates efficiencies, and improves outcomes.

President Klein concluded, “There is no better way to improve Arizona’s economy than by investing in the educational opportunities of the people who live here. We are ready to put this plan into action.”

Additional information on the board-approved strategic plan, proposed state investment model, FY17 budget request and regulatory reform agenda is available here:

<http://azregents.asu.edu/boardbook/Board%20Agenda%20Books/2015-September-Board-Meeting.pdf#page=45>

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