

Overview

ASU continues to advance the principles embodied in our Charter. With the Enterprise Plan as the roadmap to achieve the challenging metrics set by the Arizona Board of Regents, the FY 2019 Budget provides the investment framework to support the progress of the institution.

ASU Charter

ASU is a comprehensive public research university, measured not by whom it excludes, but by whom it includes and how they succeed; advancing research and discovery of public value; and assuming fundamental responsibility for the economic, social, cultural and overall health of the communities it serves.

The goals of the plan are complex, but center on access, student success, research and innovation of public value, and public service. This focus requires developing sufficient capacity to allow any qualified Arizona resident to attend and succeed, and maintaining tuition and financial aid policies ensuring that access is not limited by a resident student's financial circumstances. Additionally, ASU must offer a world-class educational environment with colleges and schools that offer the most current knowledge, and build human and technology systems needed to support students and their academic success. This continued progression is evidenced by ASU's ability to extend our visibility and reputation, attract more and stronger students and faculty from around the world, and claim a faculty committed to interdisciplinary scholarship that is a substantial contributor to new research and discovery.

FY 2018 was another good year for ASU. For the third consecutive year, ASU was named the most innovative university by U.S. News and World Report. Demand for an ASU degree continues to be strong, with Fall 2017 FTE enrollment up 3.1% over the prior year. Immersion enrollment grew by 0.8%, including strong Arizona resident enrollment, up 2.1%. Online enrollment increased by 13.3%. Moreover, ASU student success continues to improve, with the 2016-17 freshman retention rate hitting an all-time high of 85.2%. Graduation rates also continue their upward trajectory, with the four-year rate now above 50% and the six-year rate at 67.1%. Graduation rates are expected to continue to climb, given the significant improvement in the retention rates. During academic year 2016-17, ASU conferred 23,334 degrees, including 16,450 bachelors and 6,884 graduate degrees.



This past year ASU enjoyed several new acknowledgements of the University's growing quality. These include our recent naming as one of the top science and technology universities in America, and news that our alumni are among Silicon Valley's most hired recruits. In addition, the 2017 Center for World University Rankings (CWUR) listed ASU in the top 0.4% of 27,000 degree-granting institutions worldwide, and eight of our academic programs, including business and anthropology, were recognized as top ten programs internationally. CWUR are the only global higher education rankings that measure the quality of education and training of students as well as the prestige of the faculty members and the quality of their research.

In terms of research and discovery, ASU continues to grow faster than nearly any other very large research institution. ASU ranks 9th in total research expenditures among institutions without a medical school, with the research volume doubling every six to eight years. In the last year, a team of researchers, led by Professor Judd Bowman from ASU, was able to detect first light from the first stars about 180 million years after the "Big Bang." Last month, ASU Associate Professor Cody Friesen was featured on *CBS This Morning*, highlighting

his work on hydropanels and the technology developed to pull water from air, which could be a solution to water shortages.

The FY 2019 budget provides modest resources for investments that will continue the progress ASU has made to date in accelerating student and faculty achievement.

FY 2019 Budget Highlights				
<i>(\$ millions)</i>	FY 2019	FY 2018	\$ Change	% Change
Revenue	\$ 2,660.8	\$ 2,535.7	\$ 125.1	4.9%
Expense	2,601.6	2,464.4	137.2	5.6%
Increase in Net Position	\$ 59.2	\$ 71.3	\$ (12.1)	(17.0%)

FY 2019 Budgeted Revenue

The FY 2019 budget includes an increase of \$125.1 million, or 4.9%, over the FY 2018 budget. A description of each of the key components follows.

The largest investors in Arizona State University continue to be students and their parents, as evidenced by net tuition and fee revenues that represent 52% of total revenue. ASU's reputation and international recognition continue to drive strong demand for its degrees, with increased interest from Arizona residents in particular. Specifically, despite planning no tuition increase for resident undergraduate students, gross tuition and fees are projected to be \$102.7 million or 6.1% higher than the FY 2018 budget. Scholarship allowance is anticipated to increase by \$49.3 million, reflecting growth in the resident student population, most of whom qualify for institutional scholarships, and growth in the population with greater financial need that qualify for Pell grants. Tuition and fee revenue, net of scholarship allowance, is estimated to increase by \$53.4 million or 4.0%, reflecting projected enrollment growth combined with the tuition rates approved by the Board of Regents in April 2018. Financial aid grants, primarily comprised of Federal Pell grants, will increase by \$21.8 million versus the FY 2018 budget. Although a large increase on a budget-to-budget basis, it is important to note that the actual FY 2018 Pell revenues are projected to exceed budget by nearly \$15 million, making the real growth estimated for FY 2019 relatively moderate.

Enrollment growth assumptions and the resultant tuition and fee estimates included in the budget are consistent with the projections provided to the Board of Regents during the tuition workshop in March. Overall enrollment is budgeted to increase by 4.3% from Fall 2017 actual results. Enrollment growth for resident students is projected to be 1,774 FTE or 3.3% higher than Fall 2017. Nonresident domestic student enrollment growth is included at 2,790 FTE or 8.2% more than Fall 2017, while international student enrollment is anticipated to decline marginally, reflecting to some degree the impact that national political decisions have on such enrollment. While the overall enrollment growth is projected at 4.3%, immersion enrollment growth is budgeted at 0.8% and online enrollment growth is included at 17.5%.

Budgeted public investment revenues reflect the enacted State of Arizona appropriations, and include a number of technical adjustments. The FY 2019 budget includes a decline in state general fund operating appropriations of \$4.5 million, offset by a \$1 million increase in appropriations for the School of Civic and

Economic Thought Leadership. The \$11.9 million Capital Infrastructure funding approved by the legislature in FY 2018 is included as appropriated revenue.

ASU continues to achieve strong growth in sponsored research activity, and anticipates this trend to continue in FY 2019. The budget includes an increase of \$23.6 million or 6.8% in research grants and contracts over the FY 2018 budget.

Other significant changes in revenue include a projected increase of \$4.8 million in auxiliary revenues, largely the result of demand for housing and dining, and an increase in other revenues of \$13.0 million. The budget for FY 2019 other revenues relies heavily on the FY 2018 projection, which is \$7.8 million higher than budget largely due to increases in sponsorship revenues and an increase in interest income related to higher interest rates. The additional \$5.2 million increase for FY 2019 largely annualizes the interest rate increases and includes a modest increase in the Arizona Financial Aid Trust revenue from students, the result of enrollment growth.

FY 2019 Strategic Investments

Strategic investments are critical to attaining the goals assigned to ASU by the Arizona Board of Regents in the Enterprise Plan. ASU's investment priorities continue to be those discussed with the Regents in February as part of the Operational and Financial Review. These priorities include a focus on access for all qualified Arizona residents, supporting academic achievement through expansion of faculty with an emphasis on tenured and tenure-track hires, providing support positions to maintain or improve service levels for students as enrollment continues to grow, increasing research space, and continuing periodic investment in the online platform. The investments included in the FY 2019 budget are detailed below.

ASU has budgeted \$34.3 million in FY 2019 to support enrollment growth-related expenses. Further, to add faculty members beyond those supported by enrollment growth funding, \$9.0 million has been included in the FY 2019 budget to recruit faculty, focusing on both accomplished senior faculty and promising early-career academics.

Investment in institutional financial aid is a fundamental requirement for ASU to deliver on its Charter. Incremental financial aid funding included in the FY 2019 budget is \$23.8 million. This includes \$9.9 million in Regents Set-Aside from tuition, \$1.1 million in Set-Aside on differential tuition and program fees, and \$12.8 million in additional institutional aid. The incremental funding allows ASU to maintain the proportional level of financial aid relative to tuition, and is critical to ensure access and increased degree attainment for Arizona residents.

As outlined in the tuition hearing materials, ASU anticipates \$21.0 million of incremental revenue for programs supported by fees. In accordance with the plans for those fees as approved by the Board of Regents, the fees will be directly invested in the programs and courses generating those revenues.

A modest allowance has been budgeted to support merit-based salary increases. This \$7.6 million in funding is critical to recognize high-performing faculty and staff and enhance retention. Stagnant salaries in the

current employment climate could cause acceleration of turnover, and risk loss of highly talented faculty and staff. The increase will be effective as of January 2019.

New facility costs are budgeted to at \$4.5 million in FY 2019. These include \$3.2 million in debt service for new and renovated buildings, and \$1.3 million for utilities and other operating and maintenance costs.

The appropriations from the State of Arizona included a \$1.0 million allocation for the School of Civic and Economic Thought Leadership and \$0.2 million for the establishment of an office for the improvement of trade between Arizona and Mexico. In addition, the budget includes Capital Infrastructure Funding totaling \$11.9 million appropriated to ASU for FY 2019. To date, ASU has received approval to expend \$9.9 million in annual debt service for new building and renovation projects. The funding will be reserved for those expenditures, and as uses for the remaining funding are identified, ASU will request approval of projects per Board policy.

ASU also has identified \$13.3 million in cost savings that can be reallocated to help support the strategic investments required to advance the institutional mission. This includes a reduction in resources needed for the implementation of the new financial management system and benefit cost savings resulting from the planned reduction in health insurance premium costs.

FY 2019 Expense and Net Result

Expense

The expense levels included in the budget contemplate the strategic investments just detailed, as well as those generated from auxiliary and restricted funds. The increase of \$23.6 million in research revenues is included in expenditures related to the sponsored activity required.

Salaries and wages are anticipated to increase by \$76.5 million or 7.8%. This is directly attributable to the investments in faculty hiring, enrollment growth, research capacity, and auxiliary enterprises. Benefit costs are expected to increase by \$7.5 million, or 2.2%. Health care premiums assessed by the State are expected to decrease by about 7.5% from the FY 2018 level, but the savings are partially offset by moderate increases in other benefit costs.

OPEB/Pension Benefits represents the non-cash recognition of ASU's proportionate share of the State's unfunded pension actuarial liability and related post-retirement health care benefits. The reduction in the projected expense results from a change in methodology for a new liability to be recognized.

All other operating expense is expected to increase by \$66.7 million or 9.7%. This is driven largely by online partnership payments, increased research volume, operations and maintenance costs, and non-personnel strategic investments.

Depreciation, also a non-cash expense, is expected to increase by \$8.4 million. Much of the increase relates to the completion of the BioDesign C building. Interest expense is expected to decline by \$2.1 million, the result of bond refunding completed earlier in the year, taking advantage of the lower interest rate environment.

Net Result

ASU has a balanced cash-based budget, which results in a budgeted increase in net assets of \$59.2 million at June 30, 2019, a decrease of \$12.1 million relative to the current year budget, but aligned with our current expectation for FY 2018. While this still represents a healthy result, the lack of State investment for resident

students, combined with ongoing restraint on tuition rates, is beginning to limit the ability to fund mission-critical investments. It is important to note that the cash budget must include a significant increase in net assets so that coverage is available for debt service principal and capital expenditures not otherwise funded by debt, as well as to maintain long-term financial equilibrium.

Days cash on hand is expected to be 158 days at June 30, 2019, the same level as the projected at June 30, 2018.

As required by Regents policy, ASU is reporting a current-year projected deficit in the Sun Devil Athletics Operating Account, as detailed on the last page of this report.

The tables on the following pages provide the detailed budget.

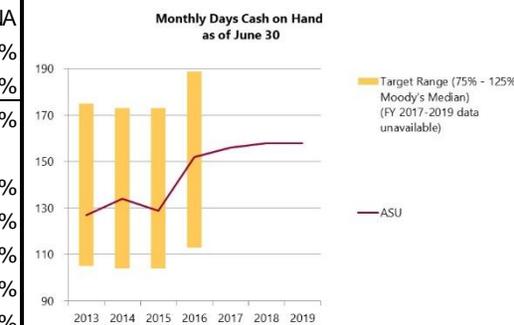
Budgeted Statement of Revenues, Expenses, and Changes in Net Position

(\$ millions)

	FY 2019 Operating Budget	FY 2018 Operating Budget	Variance between FY 2018 and FY 2019 Budget	
			\$	%
Revenues				
Appropriated General Funds	\$ 297.3	\$ 300.8	\$ (3.5)	(1.2%)
Appropriated General Funds - Research Infrastructure	13.5	13.5	-	0.0%
Appropriated General Funds - AFAT	6.0	6.0	-	0.0%
Appropriated General Funds - Capital Infrastructure	11.9	-	11.9	NA
Tuition and Fees	1,773.8	1,671.1	102.7	6.1%
less Scholarship Allowance	(385.6)	(336.3)	(49.3)	14.7%
Net Tuition and Fees	1,388.2	1,334.8	53.4	4.0%
Grants and Contracts - Research	370.5	346.9	23.6	6.8%
Financial Aid Grants (Primarily Federal Pell Grants)	151.8	130.0	21.8	16.8%
Private Gifts	85.0	84.9	0.1	0.1%
Technology and Research Initiative Funds	32.6	32.6	-	0.0%
Auxiliary Revenue	169.8	165.0	4.8	2.9%
Other Revenues	134.2	121.2	13.0	10.7%
Total Revenues	\$ 2,660.8	\$ 2,535.7	\$ 125.1	4.9%
Expenses				
Salaries and Wages	\$ 1,060.0	\$ 983.5	\$ 76.5	7.8%
Benefits	352.5	345.0	7.5	2.2%
OPEB/Pension Benefits	15.0	34.2	(19.2)	(56.1%)
All Other Operating	751.9	685.2	66.7	9.7%
Scholarships and Fellowships, Net of Scholarship Allowance	224.4	225.0	(0.6)	(0.3%)
Depreciation	134.6	126.2	8.4	6.7%
Interest on Indebtedness	63.2	65.3	(2.1)	(3.2%)
Total Expenses	\$ 2,601.6	\$ 2,464.4	\$ 137.2	5.6%
Net Increase	\$ 59.2	\$ 71.3	\$ (12.1)	(17.0%)

Monthly Days Cash on Hand

Monthly days cash on hand is projected to be 158 days at June 30, 2019.



Incremental Allocation of General Purpose Funds (\$ millions)

<u>FY 2018 Base General Purpose Funds</u>	<u>\$ 2,157.2</u>
Changes in Incremental General Purpose Funds	
Return of FY 2018 One-time General Fund Appropriation	\$ (7.6)
Remove One-time HITF Premium Increase (net)	(1.5)
University Capital Infrastructure Funding	11.9
FY 2019 One-time General Fund Appropriation	4.2
School of Civic and Economic Thought and Leadership	1.0
Arizona and Mexico Economic Development	0.2
Retirement Rate Increase Standard Adjustment	0.2
Total Change in Public Investment	8.4
Revenues from Tuition and Fees - Incremental FY 2019 Budgeted Tuition and Fees	91.6
Net Change in Resources	\$ 100.0
Allocation of Incremental General Purpose Funds	
Financial Aid	\$ 23.8
Enrollment Growth - Related Expenses	34.3
Investment in Programs Supported By Fees	21.0
University Capital Infrastructure Investments	11.9
Investment in Faculty Hiring and Academic Support	9.0
Salary Merit Program	7.6
Facility Operating Costs including Debt Service	4.5
School of Civic and Economic Thought and Leadership	1.0
Arizona and Mexico Economic Development	0.2
Internal Reallocations	(13.3)
Net Change in Budget Allocations	\$ 100.0
<u>FY 2019 Base General Purpose Funds</u>	<u>\$ 2,257.2</u>

Strategic Metric Addressed			
Student Educational Success and Learning	Educational	Discover New Knowledge	Impact Arizona
Freshman retention, enrollment, grad rates, etc.	Bachelors degrees aw arded, grad degrees, E&G, certifications and	Research and development, licenses & options, inventions	Public service, degrees in high demand fields, etc
x	x		x
x	x		x
x	x		x
x	x	x	
x	x		x
x	x	x	
x	x		x
		x	x
x	x	x	x

1. General Purpose Funds include Appropriated General Funds, Appropriated TRIF, and Appropriated and Non-appropriated tuition and fees, and exclude Non-appropriated Other Designated Funds, Auxiliary Funds and Restricted Funds.

Appropriated Funds Expenditure Authority
 (\$ thousands)

	FY 2019 Budget	FY 2018 Budget	Change
University Revenues			
Resident Tuition	\$ 494,338.9	\$ 480,273.7	\$ 14,065.2
Non Resident Tuition	850,431.0	791,454.1	58,976.9
Program Fees	74,653.0	72,010.6	2,642.4
Other Student Fees	11,550.0	11,550.0	0.0
Miscellaneous Revenues	6,147.6	6,054.9	92.7
Total University Revenues	\$ 1,437,120.5	\$ 1,361,343.3	\$ 75,777.2
 University Revenues Retained for Local Uses			
Support for Local Operating Budgets	\$ 328,616.5	\$ 268,110.5	\$ 60,506.0
Regents Financial Aid Set-Aside	150,875.6	141,035.4	9,840.2
Other Financial Aid	217,966.0	204,139.4	13,826.6
Plant Funds	20,000.0	20,000.0	0.0
Debt Service/COPS/Lease Purchase	59,588.0	46,425.4	13,162.6
Total Retained for Local Uses	\$ 777,046.1	\$ 679,710.7	\$ 97,335.4
 University Revenues Supporting the Operating Budget	\$ 660,074.4	\$ 681,632.6	\$ (21,558.2)
Plus: Public Investment ¹	332,339.7	323,859.0	8,480.7
Total Appropriated Funds Expenditure Authority	\$ 992,414.1	\$ 1,005,491.6	\$ (13,077.5)

1. Includes \$3.6M of Appropriated Technology and Research Initiative Funds (TRIF)

Prior to the start of a fiscal year, ABOR approves the Appropriated Funds Expenditure Authority as statutorily required. Appropriated Funds Expenditure Authority is equal to the sum of the public investment, appropriated tuition and fees, and other revenues as approved by the Board. University revenues retained for local uses are detailed on the following three pages.

Local Collections

<u>Designated</u>	<u>FY 2019 Budget</u>	<u>FY 2018 Budget</u>	<u>Change</u>
Academic Affairs	\$ 5,200	\$ 5,200	\$ -
AECP - International Teaching Assistants	105,500	105,500	-
Associated Students - ASU	1,035,600	1,035,600	-
Campus Environment Team	4,800	4,800	-
Career Services	48,900	48,900	-
Child and Family Services	75,600	75,600	-
Commencement	15,000	15,000	-
Constituent Advocacy	150,000	150,000	-
Dining Services Management	38,000	38,000	-
Distance Learning Technology	1,169,500	1,169,500	-
EdPlus at ASU Investments	225,345,000	187,917,900	37,427,100
Environmental Health & Safety	219,600	219,600	-
Federal Direct Loan Administration	173,600	173,600	-
Fine Arts Activities	307,900	307,900	-
Fine Arts Program	60,000	60,000	-
Fine Arts Theatres	605,900	605,900	-
Forensics	106,100	106,100	-
Graduate Support Program	439,400	439,400	-
Honors College	3,000	3,000	-
Intercampus Shuttle Services	174,000	174,000	-
Interpreters Theatre	35,700	35,700	-
KASC Radio	22,000	22,000	-
Law Tuition Allocation	12,195,400		12,195,400
Learning Communities	6,500	6,500	-
Library Support	376,100	376,100	-
Local Support for Academic/Administrative Units	41,153,900	41,153,900	-
Mona Plummer Aquatic Complex	141,900	141,900	-
Overseas Study Abroad Program Costs	2,482,800	2,482,800	-
Special Events	196,800	196,800	-
Student Affairs Initiatives	275,800	275,800	-
Student Counseling	5,000	5,000	-

Local Collections
(continued)

	<u>FY 2019 Budget</u>	<u>FY 2018 Budget</u>	<u>Change</u>
<i>Designated (continued)</i>			
Student Financial Assistance Administration	\$ 423,000	\$ 423,000	\$ -
Student Forum	45,000	45,000	-
Student Government	20,000	20,000	-
Student Health Services	225,000	225,000	-
Student Organizations	21,000	21,000	-
Student Orientation and Forums	10,600	10,600	-
Student Recreation/Intramurals	3,007,500	3,007,500	-
Student Union/Activities	558,700	558,700	-
Summer Bridge Program	335,200	335,200	-
University Minority Cultural Program	126,200	126,200	-
University Sustainability Initiatives	100,000	100,000	-
Research Asst./Teaching Asst. Benefit Costs	23,977,300	23,453,800	523,500
Employee Benefit Adjustments/Contingencies	200,000	200,000	-
Subtotal	<u>\$ 316,024,000</u>	<u>\$ 265,878,000</u>	<u>\$ 50,146,000</u>
<i>Auxiliary</i>			
Memorial Union	\$ 1,129,200	\$ 1,129,200	\$ -
Recreation Sports	827,100	827,100	-
Subtotal	<u>1,956,300</u>	<u>1,956,300</u>	<u>-</u>
Operating Funds Subtotal	<u>\$ 317,980,300</u>	<u>\$ 267,834,300</u>	<u>\$ 50,146,000</u>

Local Collections
(continued)

	FY 2019 Budget	FY 2018 Budget	Change
<i>Financial Aid</i>			
Regents Financial Aid Set-Aside	\$ 150,875,600	\$ 141,035,400	\$ 9,840,200
Other Financial Aid - Institutional Financial Aid	198,239,400	185,408,100	12,831,300
Other Financial Aid - CRESMET/CONACYT/NEEP	371,400	371,400	-
Teach for America Scholarships	100,000	100,000	-
Other Financial Aid - Graduate Scholars Program	600,000	600,000	-
Graduate Fellow ship Program	1,800,000	1,800,000	-
CONACYT Fellow ship Program	144,900	144,900	-
Other Fin. Aid - School of Engineering Program	1,760,000	1,760,000	-
Subtotal	\$ 353,891,300	\$ 331,219,800	\$ 22,671,500
<i>Minor Capital/Facilities Maintenance Projects</i>	\$ 20,000,000	\$ 20,000,000	\$ -
<i>Energy Management Contract</i>	5,887,000	8,023,100	(2,136,100)
<i>Debt Service</i>	53,701,000	38,402,300	15,298,700
Total Local Collections from Tuition	\$ 751,459,600	\$ 665,479,500	\$ 85,980,100
Local Collections from Program Fees			
<i>Designated</i>			
Local Support for Academic Units	\$ 10,636,200	\$ 276,200	\$ 10,360,000
<i>Financial Aid</i>			
Business Financial Aid Set-Aside	\$ 3,002,400	\$ 3,142,900	\$ (140,500)
Engineering Financial Aid Set-Aside	2,235,400	2,157,300	78,100
Health Solutions Financial Aid Set-Aside	1,421,100	1,264,700	156,400
Journalism Financial Aid Set-Aside	274,800	215,900	58,900
Law Financial Aid Set-Aside	4,119,000	3,368,000	751,000
Liberal Arts & Sciences Financial Aid Set-Aside	1,058,600	1,031,700	26,900
Nursing Financial Aid Set-Aside	875,500	811,000	64,500
Student Technology Fee Financial Aid Set-Aside	1,963,500	1,963,500	-
Subtotal	\$ 25,586,500	\$ 14,231,200	\$ 11,355,300
Total Local Collections from Program Fees	\$ 25,586,500	\$ 14,231,200	\$ 11,355,300
Total Local Collections	\$ 777,046,100	\$ 679,710,700	\$ 97,335,400

FY 2019 Local Budget with Deficit of \$100,000 or More

Account	FY 2017 Actual Ending Surplus/(Deficit)	FY 2018 Estimated Revenues and Transfers In	FY 2018 Estimated Expenditures and Transfers Out	FY 2018 Projected Operating Margin	FY 2018 Projected Ending Balance
Sun Devil Athletics Operations	\$ 2,580,400	\$ 86,714,300	\$ 92,658,800	\$ (5,944,500)	\$ (3,364,100)

Description

The projected deficit for Sun Devil Athletics (SDA) Operations is driven primarily by contractual buyout payments to former Football coaches, as well as the renegotiation of the Men's and Women's Head Basketball coaches' contracts. The resulting deficit will be offset over the next four years by additional sponsorship revenue, philanthropy and operating efficiencies.

