

Briefing on University Funding

Presented for discussions with student representatives on September 28, October 2 and October 9, 2007.

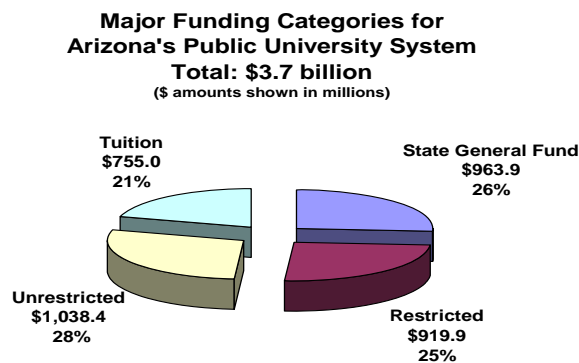
Arizona’s three public universities, The University of Arizona (UA), Arizona State University (ASU), and Northern Arizona University (NAU), rely very heavily on two primary funding sources -- state general fund appropriations and student tuition -- to provide education programs.

It is helpful to look at these two funding sources in relation to one another as well as in the context of overall university funding.

THE BIG PICTURE

Each of Arizona’s public universities relies on revenues from a variety of sources to perform their distinctive roles in Arizona, as well as in national and even global contexts. The pie chart labeled Figure 1 below shows the four main categories of projected University System funding in fiscal year (FY) 2008.

FIGURE 1



The categories labeled as “restricted” and “unrestricted” funding generally refer to grants, gifts, endowments, or other revenues, from Federal, philanthropic or auxiliary sources. Of the four revenue categories shown above, only two – tuition and general fund appropriations - are directly approved by state governing bodies. Tuition and mandatory fees* are set by the Arizona Board of Regents (Regents). State general fund dollars are appropriated by the legislature, with the approval of the governor, as part of the state’s annual budget adoption.

While the university programs funded through various restricted and unrestricted revenue streams are an extremely important component of the universities’ missions, this briefing will focus on tuition revenue and state general fund appropriations, which fund university operating budgets.

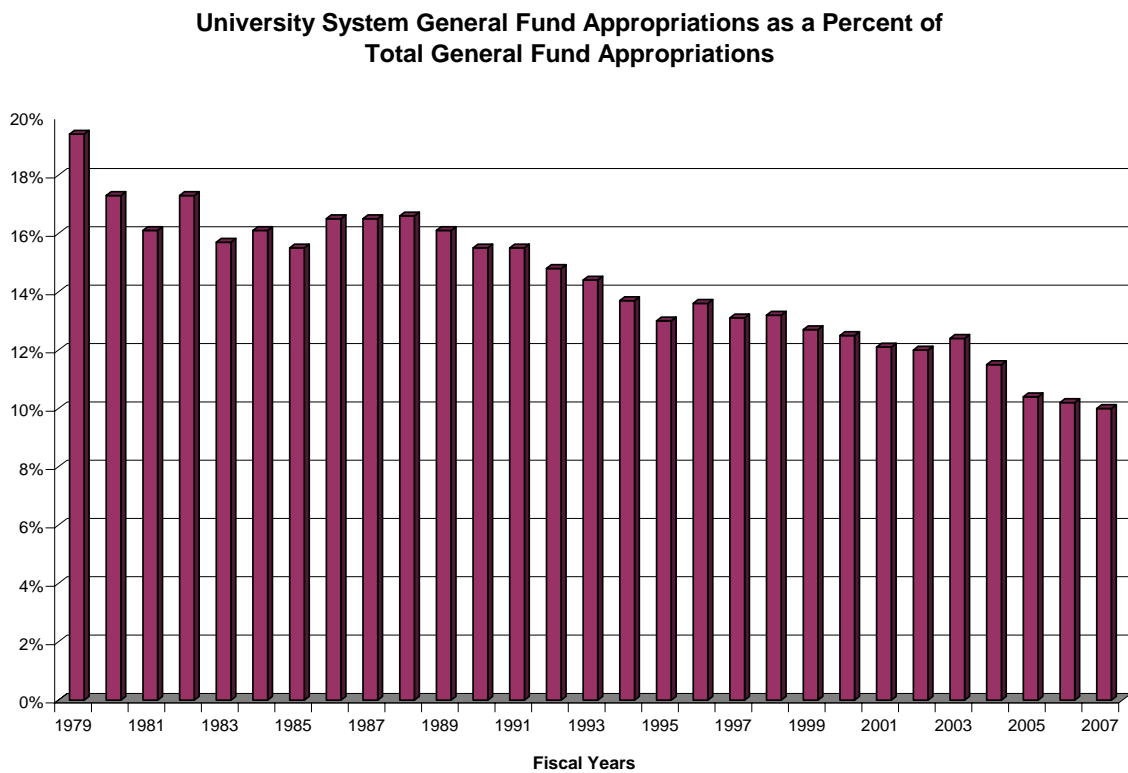
* Please note: For purposes of this discussion, all further references to *tuition* will always refer to both *tuition* and *mandatory fees*.

STATE GENERAL FUND APPROPRIATIONS

In Arizona, as is the case in most of the United States, the public university system's share of state appropriations has become smaller as the state has had to deal with competing demands on the state treasury.

Figure 2 shows Arizona's public university general fund appropriations as a percentage of the total state general fund from FY 1979 to FY 2008. In FY 1979, appropriations to the University System constituted 19.4 percent of the general fund appropriations. Today the university share amounts to only 10.6 percent.

FIGURE 2

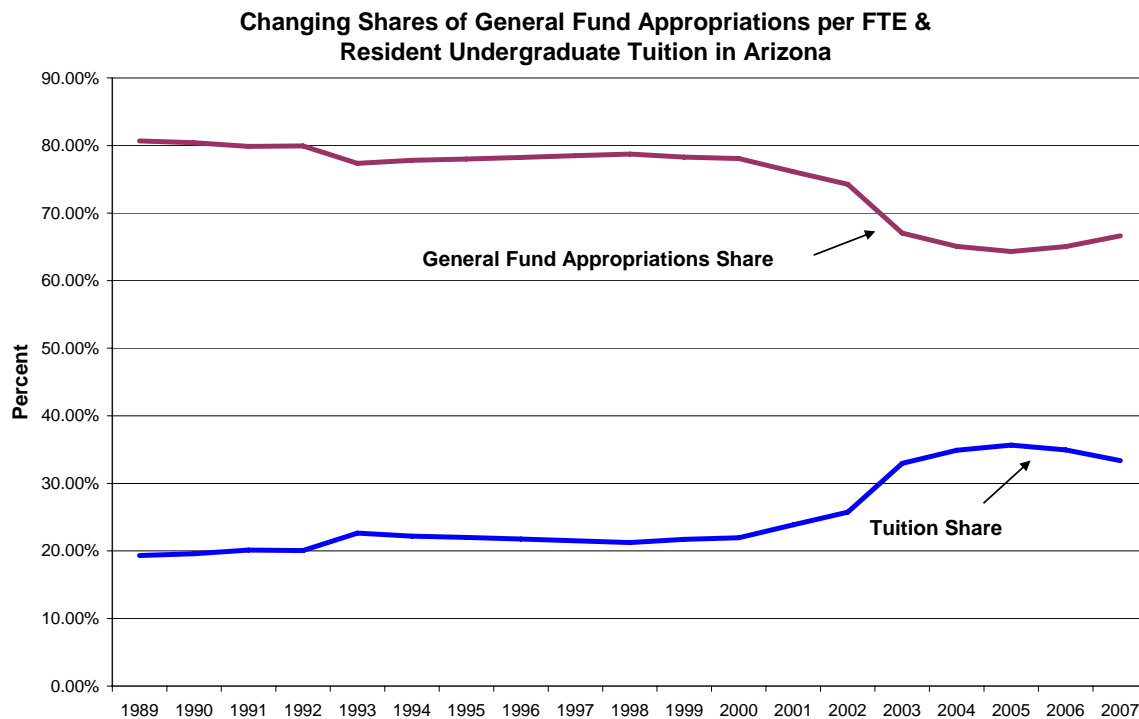


There are numerous reasons for this shift as state government officials and voters have grappled with the state's needs and changing political priorities. It is clear, however, that universities are not in the same place they once were among Arizona's many competing demands.

THE RELATIONSHIP BETWEEN GENERAL FUND APPROPRIATIONS AND TUITION

There is a direct relationship between general fund appropriations and tuition increases. One way to look at the relationship between general fund appropriations and tuition is represented by the two lines plotted in the Figure 3.

FIGURE 3



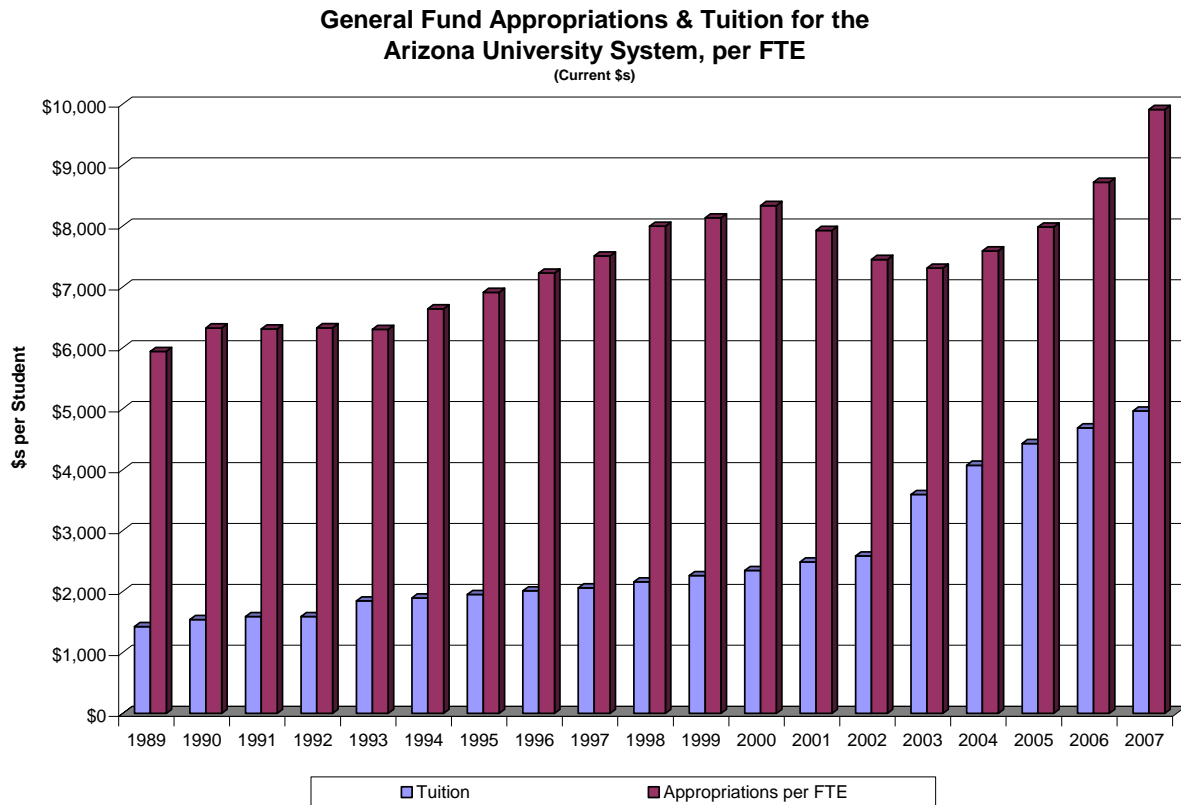
The focus here is on *resident undergraduate tuition* as it relates to *general fund appropriations per FTE*. The blue line represents the resident undergraduate tuition set by the Board of Regents as a percent of the combined totals of resident undergraduate tuition and appropriations per FTE.

Similarly, the red line shows the amount appropriated each year by the legislature per FTE as a percent of the same combined total as in the blue line – undergraduate resident tuition and appropriations per FTE. The two lines together demonstrate the relative decline in the share of per-student funding coming from legislative appropriations as compared to the amount set by the Regents to come from resident undergraduates.

In 1989, legislative appropriations per FTE constituted 80 percent of the combined total; undergraduate tuition and fees made up 20 percent. By 2006, the share of general fund appropriations per FTE had declined to 65 percent while resident undergraduate tuition constituted 35 percent.

Figure 4 shows state general fund appropriations per FTE compared to tuition in current dollars (not adjusted for the impact of inflation). Note that when general fund appropriations were increasing from 1989 to 2000, tuition increases were modest. Conversely, when general fund appropriations per FTE decreased significantly (as they did beginning in 2001) there was substantial upward pressure on tuition rates in order for the universities to continue to fund their operating costs and maintain the caliber of their educational programs.

FIGURE 4



The two largest tuition increases occurred during 2003 and 2004 to offset large budget cuts imposed on the universities in previous years. During 2001 and 2002, the universities' general fund operating budgets were cut by a total of \$109 million.

General fund appropriations per FTE had reached a highpoint in 2000, declining sharply during 2001, 2002 and 2003. Appropriations per FTE have been climbing in recent years, and in 2006 and 2007 exceeded the previous highpoint. However, inflation has eroded the purchasing power of the dollar as universities have attempted to address critical issues such as faculty and staff salaries and building repair and maintenance.

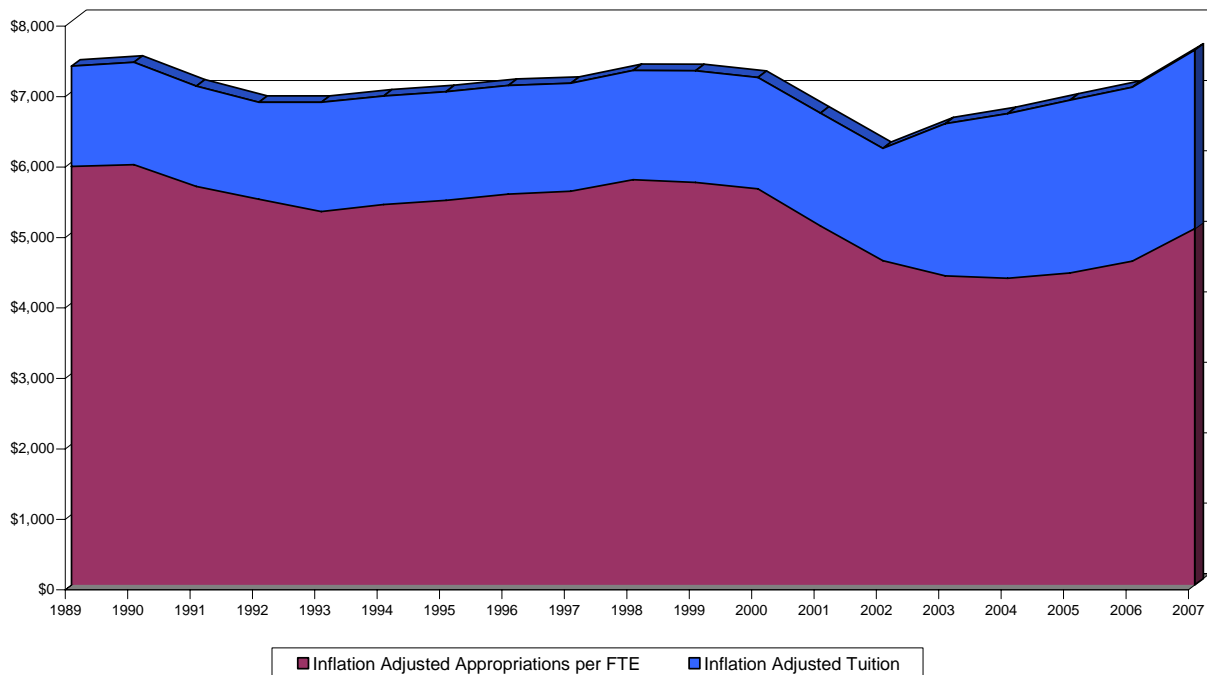
THE IMPACT OF INFLATION ON UNIVERSITY OPERATIONAL REVENUES

Figure 5 provides another look at the relationship between general fund appropriations and tuition by factoring in the impact of inflation. Although, as we saw with Figure 4, actual general fund appropriations combined with tuition have increased since 1989, the real value -- purchasing power -- has diminished overtime. Using the Higher Education Price Index (HEPI) to make the dollar values constant with those in 1989, the graph combines the inflation-adjusted tuition and general fund appropriations per FTE in order to put the overall dollars available from these two revenue streams into perspective.

This graph demonstrates that, notwithstanding tuition increases, the universities' purchasing power is about at the same level as it was in 1989 in constant dollars.

FIGURE 5

**Inflation Adjusted General Fund Appropriations & Tuition for the
Arizona University System, per FTE**
(Purchasing Power in 1989 \$s using HEPI)

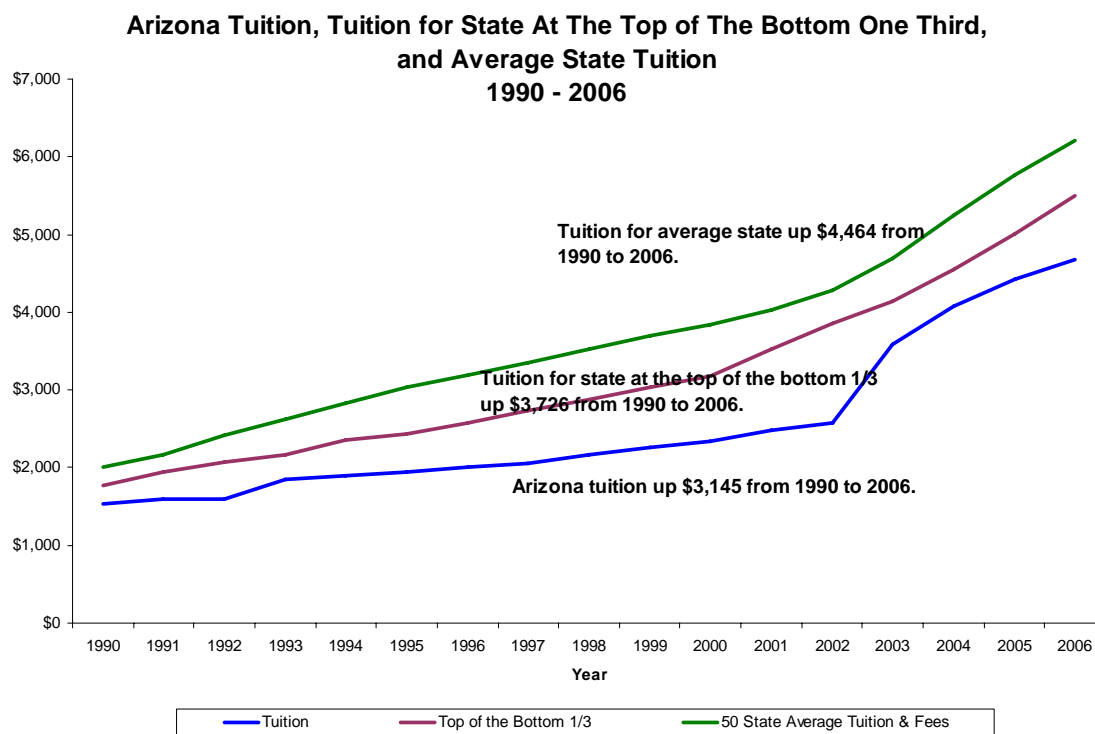


HOW ARIZONA COMPARES

The Regents strive to maintain a low tuition. Board policy stipulates that total base resident undergraduate tuition and mandatory fees shall not exceed the top of the bottom one-third of rates set by the senior public universities of the other 49 states. Tuition levels in Arizona remain well below that threshold and even further below the average tuition in the senior public universities.

The line graph in Figure 6 shows how Arizona's tuition levels compare over time with other states. The blue line at the bottom tracks tuition levels in Arizona. The red line represents the tuition level for the state at the "top of the bottom one-third" among the senior public universities. The green line plots average tuition levels among all 50 states in this comparison.

FIGURE 6



In 2006-2007, resident undergraduate tuition compared with other senior public universities, ranked as follows:

- University of Arizona: 39th at \$4,754
- Arizona State University: 40th at \$4,686
- Northern Arizona University: 44th at \$4,546

A table containing the entire 50-state comparison can be found on Page 9.

COST OF ATTENDANCE AND FINANCIAL AID

Of course, tuition is only one part of the cost of attending a university. Page 10 includes a 50-state comparison of cost of attendance (COA) for each of the senior public universities during the 2006-2007 academic year.

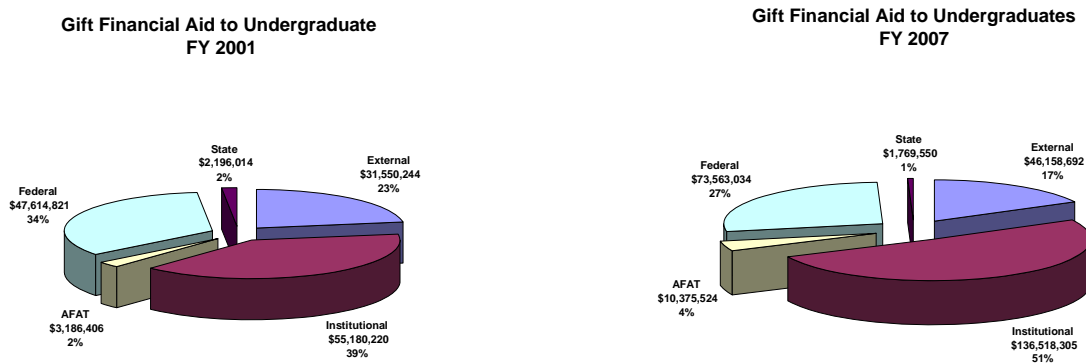
While each student's situation is different, this COA analysis includes tuition and makes some reasonable assumptions on costs for room and board, books and supplies. In the COA comparison for resident undergraduates, Arizona's universities rank as follows:

- University of Arizona: 30th at \$13,420
- Arizona State University: 40th at \$12,536
- Northern Arizona University: 46th at \$11,634

For many students, achieving their higher education goals is not possible without some form of financial assistance. Keeping tuition low is in itself a form of financial aid. However, given the pressures on funding discussed above, it has become increasingly necessary to make need-based financial aid available to students.

The two pie charts in Figure 7 compare the sources of gift aid – scholarships and grants - for undergraduates during the 2000-2001 academic year to those six years later. The most notable difference between these two charts is in “institutional” assistance, which nearly tripled in size during the period covered by this data. Institutional aid now comprises more than half of all scholarships and grants made available to undergraduates.

FIGURE 7

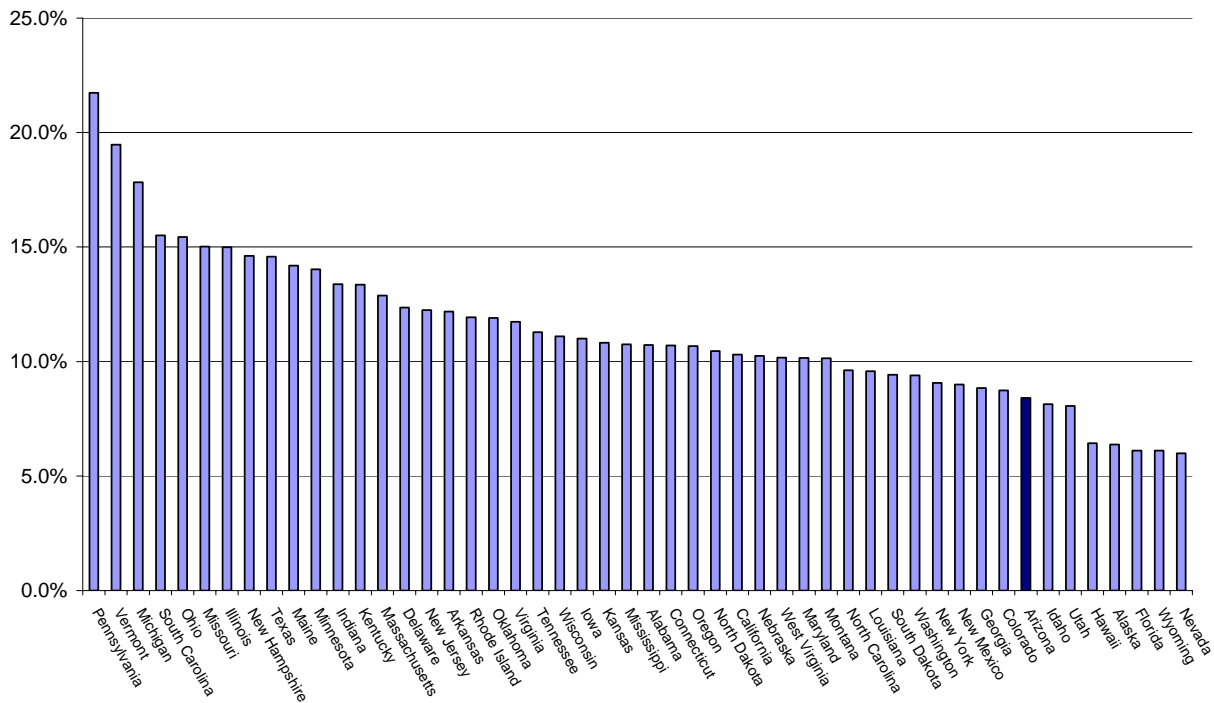


The Regents have a long record of commitment to the principles of access and affordability. One of the Regents' recent legislative efforts was, together with students, to seek changes to state law to increase the state's contribution to need-based financial aid through the Arizona Financial Aid Trust (AFAT) Fund. This trust fund includes state general fund contributions, a student-approved tuition contribution, and investment earnings, and makes specified percentages available for immediate financial aid. In FY 2007, legislation was passed that increased the state's contribution to AFAT and the amounts available for immediate financial aid. However, even with such projected increases in state funding for financial aid, the state's investment in financial aid will need to increase in order to ensure access and affordability.

FAMILY INCOME

Below is a chart that compares median family income in the 50 states, to tuition and mandatory fees for the senior public universities in the 50 states. Tuition and fees as a percent of median family income range from a high of nearly 22% at Penn State, to a low of 6% at University of Nevada, Reno. Arizona's tuition and fees as a percent of median family is the 7th lowest of the 50 states at 8.4%.

**Tuition as a Percent of Median Family Income for the 50 States
(2006)**



2006-07
RESIDENT UNDERGRADUATE TUITION AND MANDATORY FEES
50 STATE COMPARISON OF SENIOR PUBLIC UNIVERSITIES

	INSTITUTION	RESIDENT 2006-07
1	PENNSYLVANIA State University, University Park	12,637
2	University of VERMONT	11,323
3	University of NEW HAMPSHIRE, Durham	10,401
4	University of MICHIGAN, Ann Arbor	10,341
5	University of MASSACHUSETTS, Amherst	9,595
6	Rutgers University, Newark - NEW JERSEY	9,534
7	University of ILLINOIS, Urbana-Champaign	9,466
8	University of MINNESOTA, Twin Cities	9,373
9	OHIO State University, Columbus	8,667
10	University of CONNECTICUT	8,362
11	University of MISSOURI, St. Louis	7,968
12	University of MARYLAND, College Park	7,906
13	University of VIRGINIA	7,853
14	University of SOUTH CAROLINA, Columbia	7,808
15	University of DELAWARE	7,740
16	University of RHODE ISLAND	7,724
17	University of TEXAS, Austin	7,630
18	University of MAINE, Orono	7,494
19	INDIANA University, Bloomington	7,460
20	University of WISCONSIN, Madison	6,730
21	University of CALIFORNIA, Berkeley	6,654
	AVERAGE (EXCLUDING AUS)	6,635
22	University of KENTUCKY, Lexington	6,510
23	University of KANSAS	6,153
24	University of IOWA	6,135
25	University of WASHINGTON, Seattle	5,985
26	University of OREGON	5,970
27	University of NEBRASKA, Lincoln	5,836
28	University of NORTH DAKOTA, Grand Forks	5,792
29	University of OKLAHOMA	5,710
30	University of COLORADO, Boulder	5,643
31	State University of NEW YORK, Stony Brook	5,631
32	University of TENNESSEE, Knoxville	5,622
33	University of ARKANSAS	5,494
	LOWER ONE-THIRD	
34	University of ALABAMA	5,278
35	University of MONTANA	5,174
36	University of SOUTH DAKOTA	5,072
37	University of NORTH CAROLINA, Chapel Hill	5,034
38	University of GEORGIA, Athens	4,964
39	University of ARIZONA	4,754
40	ARIZONA State University	4,686
41	University of UTAH	4,686
42	LOUISIANA State University	4,621
43	University of MISSISSIPPI	4,602
44	Northern ARIZONA University	4,546
45	University of HAWAII, Manoa	4,523
46	WEST VIRGINIA University, Morgantown	4,476
47	University of ALASKA, Anchorage	4,455
48	University of NEW MEXICO	4,336
49	University of IDAHO	4,200
50	University of NEVADA, Reno	3,684
51	University of WYOMING	3,515
52	University of FLORIDA	3,330

Source: Annual tuition and fees survey conducted by ABOR Central Office.

2006-07
COST OF ATTENDANCE
50 STATE COMPARISON OF SENIOR PUBLIC UNIVERSITIES
(RANKED BY RESIDENT COA: HIGH TO LOW)

	INSTITUTION	RESIDENT COA	NONRES COA	RES TUITION	NONRES TUITION	ROOM & BOARD	BOOKS & SUPPLIES
1	PENNSYLVANIA State University, University Park	21,077	31,673	12,637	23,233	7,400	1,040
2	University of CALIFORNIA, Berkeley	21,054	39,738	6,654	25,338	13,074	1,326
3	University of VERMONT	19,865	34,849	11,323	26,307	7,642	900
4	Rutgers University, Newark - NEW JERSEY	19,802	28,307	9,534	18,039	9,536	733
5	University of NEW HAMPSHIRE, Durham	19,385	31,835	10,401	22,851	7,584	1,400
6	University of MICHIGAN, Ann Arbor	19,129	38,942	10,341	30,154	7,808	980
7	University of ILLINOIS, Urbana-Champaign	18,182	32,268	9,466	23,552	7,716	1,000
8	University of MASSACHUSETTS, Amherst	17,850	27,572	9,595	19,317	7,255	1,000
9	University of RHODE ISLAND	17,823	31,523	7,724	21,424	9,199	900
10	University of MARYLAND, College Park	17,377	30,816	7,906	21,345	8,562	909
11	University of CONNECTICUT	17,354	30,554	8,362	21,562	8,266	726
12	University of MINNESOTA, Twin Cities	17,097	28,727	9,373	21,003	6,824	900
13	University of TEXAS, Austin	16,606	29,340	7,630	20,364	8,176	800
14	OHIO State University, Columbus	16,467	28,362	8,667	20,562	6,720	1,080
15	University of DELAWARE	15,906	26,616	7,740	18,450	7,366	800
16	University of VIRGINIA	15,723	33,823	7,853	25,953	6,870	1,000
17	LOUISIANA State University	15,339	23,639	4,621	12,921	9,218	1,500
18	University of MAINE, Orono	15,319	26,269	7,494	18,444	7,125	700
19	University of COLORADO, Boulder	15,249	33,145	5,643	23,539	8,300	1,306
20	University of SOUTH CAROLINA, Columbia	15,166	27,594	7,808	20,236	6,520	838
21	University of MISSOURI, St. Louis	15,154	25,420	7,968	18,234	6,306	880
22	State University of NEW YORK, Stony Brook	14,955	21,215	5,631	11,891	8,424	900
23	University of WASHINGTON, Seattle	14,931	30,229	5,985	21,283	8,001	945
	AVERAGE COA (EXCLUDING AUS)	14,782	26,012	6,635	17,865	7,200	948
24	University of OREGON	14,697	27,495	5,970	18,768	7,827	900
25	INDIANA University, Bloomington	14,552	27,564	7,460	20,472	6,352	740
26	University of WISCONSIN, Madison	14,510	28,510	6,730	20,730	6,920	860
27	University of IOWA	13,887	26,111	6,135	18,359	6,912	840
28	University of OKLAHOMA	13,672	21,961	5,710	13,999	6,863	1,099
29	University of NORTH CAROLINA, Chapel Hill	13,500	28,148	5,034	19,682	7,466	1,000
30	University of ARIZONA	13,420	23,626	4,754	14,960	7,850	816
31	University of NEVADA, Reno	13,324	23,235	3,684	13,595	8,540	1,000
32	University of ARKANSAS	12,939	21,072	5,494	13,627	6,522	923
33	University of NEBRASKA, Lincoln	12,899	22,349	5,836	15,286	6,183	880
34	University of ALASKA, Anchorage	12,867	21,237	4,455	12,825	7,500	912
35	University of HAWAII, Manoa	12,820	20,692	4,523	12,395	7,185	1,112
36	University of TENNESSEE, Knoxville	12,674	24,240	5,622	17,188	6,054	998
37	University of KENTUCKY, Lexington	12,670	20,130	6,510	13,970	5,560	600
38	University of KANSAS	12,650	21,620	6,153	15,123	5,747	750
39	University of GEORGIA, Athens	12,612	25,688	4,954	18,040	6,848	800
40	ARIZONA State University	12,536	23,695	4,686	15,845	6,900	950
41	University of ALABAMA	12,208	22,224	5,278	15,294	5,980	950
42	WEST VIRGINIA University, Morgantown	11,931	21,295	4,476	13,840	6,630	825
43	University of MONTANA	11,884	21,690	5,174	14,980	5,860	850
44	University of NORTH DAKOTA, Grand Forks	11,815	19,809	5,792	13,786	5,323	700
45	University of NEW MEXICO	11,808	21,649	4,336	14,177	6,680	792
46	Northern ARIZONA University	11,634	20,575	4,546	13,487	6,260	828
47	University of UTAH	11,603	21,596	4,686	14,679	5,831	1,086
48	University of WYOMING	11,576	18,116	3,515	10,055	6,861	1,200
49	University of MISSISSIPPI	11,494	17,458	4,602	10,566	5,892	1,000
50	University of IDAHO	11,284	20,884	4,200	13,800	5,696	1,388
51	University of FLORIDA	10,840	25,370	3,330	17,860	6,590	920
52	University of SOUTH DAKOTA	10,786	11,977	5,072	6,263	4,964	750