

March 17, 2021

Everyone, today I want to summarize what I know of the current financial environment.

Our statewide enterprise is affected by federal, state, county and city finances and budgets, in addition to UA finances and budget systems.

We are required by central administration to multi-year plan using all funds revenues. This makes a lot of sense to me; we would be irresponsible to not plan multiple years into the future and we have been doing so for a decade in our complicated and complex enterprise. We do this in part by perpetual probabilistic modeling, in the context of ongoing strategic management and leadership, and we have been demonstrably able to do so successfully over the last decade. A few extremely dedicated and hardworking people in Division Business Services and in the AES, CALS and CES leadership teams do this work, especially our exceptional [Planning, Consulting, & Data Solutions Team](#).

This spring Provost Folks and CFO Rulney now require all deans to have “All Funds Multi-Year Discussions” with them and their teams. Again, I think this is a very good idea and, though we are asked to present a plan for three years, we have been doing so for five years for the last decade and will present five years. The three federally mandated units will meet separately: AES (TBD), CALS (3/30), and CES (3/16). In addition to me and Jeffrey Ratje, leaders present will be: AES, Mitch McClaran and Kina Barton; CALS, Parker Antin, Mike Staten and Janis Rutherford; CES, Jeff Silvertooth and Carolyn Greeno. The AES discussion will include, specifically, support of the CVM. All AFMY material will be posted on our COMPASS website at <https://compass.arizona.edu/content/budget-metrics> (linked under ALVSCE / Unit Funds) after the meetings.

The VDL is an “Auxiliary Enterprise” (i.e., a separately organized university unit or activity established to sell products or services on a continuing basis; managed as a self-supporting business) reporting to me. Equivalent budgetary planning discussions have been happening throughout the last year and continue.

American Rescue Plan Act of 2021 and State Finances

Arizona’s Joint Legislative Budget Committee (JLBC) [approximates](#) Arizona will receive ~2% of the total nationwide amount: \$12.3 billion to the state government, \$2.6 billion to local governments, and \$1.2 billion in business aid. (Note that \$12.3 billion is more than Arizona’s entire FY20 general fund budget.)

The Department of Education and the Universities and Community Colleges will receive \$3.2 billion to continue the programs outlined in the first two relief packages, as well as additional funding for school connectivity improvements and Individuals with Disabilities Education Act programs. The Department of Health Services and AHCCCS will receive a combined \$1.7 billion for community grants targeted at everything from vaccines, contact tracing, mental health services, substance abuse help, and KidsCare.

Arizona House and Senate leaders from both parties have stated they want to see widespread tax cuts to stimulate the state economy and offset what they anticipate to be negative effects of Proposition 208 tax rates.

In my opinion the massive cash infusion from the American Rescue Plan will impact Arizona's legislative budget negotiations, especially when it comes to where general fund money may or may not be spent over the next 3-5 years.

In addition, the 2018 U.S. Supreme Court decision concluding that states are free to levy taxes on all sales made into the state, regardless of source, led Arizona to begin charging "transaction privilege tax" on retailers who make at least \$200,000 in direct sales into the state. County and city elected officials I have spoken with directly have told me that the explosion of online shopping during our last year resulted in very large revenue increases, and I have read similar information in news reports.

Finally, to quote the JLBC Monthly Fiscal Highlights - February 2021, "*The state's fiscal health can also be measured by the operating fund balance. The state pays its bills out of the operating fund balance, which consists of the General Fund and certain dedicated funds. The operating balance as of mid-February 2021 is \$4.90 billion.*"

So Where Does This Leave Us?

The national news is full of doom and gloom about the future of higher education. In some states students are reportedly not attending their universities in large numbers, so these universities' tuition revenues will be way down. Compounding this problem, predicted state budgets are reportedly in terrible shape. Public universities are apparently facing "dire" budget cutting, and many have reported or are planning significant job losses, including tenured faculty. For some, like those in Kansas, reports look very bleak indeed.

Last week in the UA Quarterly Leadership Meeting the Provost and CFO stated that FY22 would be "very difficult" ([slides](#); [recording](#)) and that colleges will be expected to find efficiencies and be more effective. The provost told the deans last Friday that student retention is currently down 3% from last year and this will be a "very big revenue problem."

The latest "Updated RCM model spreadsheet with college-defined Metrics based on AFMY for FY21,22,23,24" from central administration (see my 3/11 Semiannual Update [slides](#); [recording](#)) shows:

- UA colleges in structural deficit – CALS is not one of them.
- The provost and CFO have stated that college deans are expected to resolve structural deficits.
- Unless further decreases to CALS revenue are applied by central administration and/or CALS net "all funds" revenue decreases, I will not need to resolve a CALS structural deficit.
- Of the main campus colleges, CALS is taking one of the largest FY21 percentage funding decreases based on FY20, FY21 revenue forecast, and executive decisions – CALS is the only main campus college with a negative Exec. Decision Adjustment (\$3M); all others have zero or multimillion dollar increases.
- CES continues to suffer from inflation – CES is not in structural deficit only because of very difficult management and leadership decisions at all levels in the organization over the last decade.

For CALS, I am optimistic: UA has a great global brand, Arizona has already enacted the largest cuts to state higher education funds in the nation, and in CALS, we have a decade of success behind us. For CES, I am cautiously hopeful that 4 years of trying with the Office of Government and Community Relations advocacy for an increased budget allocation for CES from the state may be successful.

What I've outlined above means that you should have as high an expectation of job security as ever, even if you don't have the property right of tenure or continuing status. There is, however, an active rumor mill. As we move through this spring and summer, enrollment numbers will become clearer and university finances may change. If other colleges remedy structural deficits, you could hear of job losses in these other colleges. Of course, with rumors, you could hear of job losses in these other colleges that haven't happened.

As always, I will continue to keep you apprised of any and all substantive changes to our finances so that you can continue your focus on what is most important to us all, delivering your education, Extension and research.

Regards,

A handwritten signature in blue ink that reads "Shane".

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