

TOPIC: FISCAL YEAR 2007-2008 DEPARTMENT BUDGET REQUEST

PREPARED BY: DIANE LINDNER

I. SUMMARY

In the performance contracts negotiated between CCHE and the institutions, the parties adopted the Mandated Cost model as the methodology to develop the budget for higher education. The model is designed to identify costs placed on higher education by entities outside of their control. It looks at four major expense categories: salaries and benefits, insurance, utilities, and financial aid and assigns funding priority to those unavoidable, mandated cost increases.

While this model has served to provide the legislature and other policy makers with the rationale for increased costs in higher education, the model has no mechanism to assist institutions in developing capacity or funding initiatives to improve the quality of education. Although CCHE and the institutions are currently working on alternatives to the mandated cost model, it is still an appropriate foundation and should continue to be utilized as a component of the budget process.

Given the passage of Referendum C in November of 2005, institutional budgets approved by the legislature for 2006-2007 funded mandated costs with general fund, through a combination of stipends, fee for service and “unfunded enrollment” or base restorations. At the same time the Governor and Legislature funded the mandated costs increases for institutions, there was a 2.5% cap held on tuition rates for resident undergraduate students. While the level of funding for higher education was higher than in past years, there is still a significant gap in funding higher education at a level that can sustain the high quality of education provided by our state institutions.

The Commission initiated a funding study in July of this year that proposed to review national funding models. The National Center for Higher Education Management Systems (NCHEMS) agreed to lead this study. Each institution contributed to the cost of the study and participated in the effort. NCHEMS’ key recommendation is to move the funding discussions for higher education away from a cost model to a revenue-driven model. The fundamental question NCHEMS posed was how to determine whether institutions were adequately and equitably funded: i.e., each institution has adequate resources for the unique missions and resulting program offerings that affect cost.

NCHEMS identified two sets of national models: one that uses costs, formulas and pieces of the structure of higher education to negotiate funding and the other that uses benchmarks developed through comparative institution analysis taking into consideration revenue in addition to costs. Based on NCHEMS’ strong recommendation to utilize a model that analyzes peer data and revenues, comparable peer institution benchmarks were developed for each public higher education institution in Colorado. The first set of calculations shows that although higher education funding has lagged in most states in recent years, Colorado higher education institutions receive only approximately 66.5% of the funding of their peers. As a comparison, a review of K-12 education funding shows K-12 schools in Colorado are funded at 92% of the national average. Importantly, the study shows which institutions have been disproportionately under-funded and provides important data on tuition revenues relative to general fund dollars against comparable peer benchmarks. Although the findings of the NCHEMS study may not be surprising to those familiar with the state of higher

education funding in Colorado, the Commission, legislature and institutions are now armed with the information necessary to develop a cohesive and comprehensive 5-year funding plan to bring Colorado institutions up to at least the average level of benchmark funding.

Stakeholders also can and should take these data and findings and conduct further analysis to determine the best mechanism for addressing inequities in funding levels within the state system. The information presented in the study will also assist stakeholders in determining how to better allocate funds to the College Opportunity Fund stipend, fee for service contracts, and financial aid in order to drive state priorities and provide greater predictability to institutions for budget planning purposes. In addition, the study should facilitate a discussion regarding the proportion of educational costs that should be borne by taxpayers (stipend and financial aid) versus students (tuition and fees).

[Attachment A](#) shows the percent of funding Colorado institutions receive compared to their peers. In order to fund all state institutions at the same level as the average – not the highest – peer benchmarks, it would require approximately \$821M in general fund dollars. Recognizing that it would be unrealistic to request such funding over one or even two years, staff recommends that the Commission resolve to work with the institutions to achieve a conservative level of an additional \$500M in funding over the next five years. As detailed herein, staff recommends a first year step of \$100M towards that goal.

Staff also recommends that the first year request for funding the five-year NCHEMS study model start with the proportion of mandated costs borne by each governing board. Use of the existing cost model allows Colorado to make progress toward accomplishing a comprehensive funding plan for higher education while recognizing that further refinement of the NCHEMS study will be necessary in order to replace the cost model altogether.

A significant step towards the five-year funding goal could also be achieved through funding the second year of the \$75M base restoration or unfunded enrollment request approved and submitted as part of the budget process last year. Staff recommends, however, that the justification for the request focus on achieving the five-year NCHEMS model funding goals, which are the result of the lag in funding calculated through the unfunded enrollment statutory provision.

Staff also recommends an increase in financial aid funding in order to implement the financial aid reforms that the Commission has been working on for the last year. Through extensive collaboration with the institutions, staff has developed an exceptional financial aid model that will ensure financial and informational resources are available to students who might otherwise not see the path towards college.

Finally, the staff recommendation on tuition spending authority recognizes that institutions honored their commitment to voters who approved Referendum C by adopting minimal tuition rate increases last year. As a result of the availability of additional general fund dollars this year, staff recommends only moderate increases in tuition revenue spending authority. The recommended increases will continue to make educational opportunities affordable to Colorado residents while allowing institutions some flexibility to address tuition issues identified by the NCHEMS study and better respond to current market conditions.

II. ANALYSIS

A. General Fund Request

Staff recommends that the Commission request funding for the first year of the NCHEMS plan at approximately \$100M of the overall benchmark goal, which would include: \$66.8M in mandated costs, \$5.3 M in financial aid and \$25M in base restoration funding (the second year of the unfunded enrollment request submitted last year). [Attachment B](#) details the specific mandated cost increases and Attachment C shows the base restoration allocation for each institution.

1. Mandated Costs – Stipends and Fee-For-Service Contracts

Mandated costs are identified by budget documents provided to staff through the Commission’s Budget Data Book. New cost information, provided in mid-December, to Commission staff may cause some changes in the mandatory cost model. Frequently the common state-wide policies on risk management increases or decreases, changing the cost model. The model is flexible enough to adjust to mid-year changes. Common policy adjustments are attributable to JBC changes on salaries and benefits and insurance costs. The mandatory cost model considers the following areas:

- Personnel costs
- Risk Management premiums
- Utilities
- Distributed AHEC costs
- Mandated cost add-on from FY 2007

Combined, the mandated cost model reflects the essential base general fund increase for institutions and is consistent with the budget that will be submitted by the Governor’s Office of State Planning and Budget:

Type of Cost	Cost
Personnel costs inflated by the average adjustment calculated by the Department of Personnel Administration (3.4% on salaries) and benefit costs (adjusted by 15.2% of Health, Life and Dental benefits)	\$ 41.3M
Risk Management Costs	\$ 2.3M
Utilities inflated by last year’s U.S. Department of Labor estimate of 15.2%	\$ 10.0M
Special Utilities for the operations of new buildings or changes in utility contracts	\$ 3.1M
AHEC Costs Distributed to Auraria campuses	\$ 1.6M
Mandated Cost Add-on from FY2007	\$ 8.5M
Total Mandated Cost Increases	\$ 66.8M

As required by the Performance Contracts, staff recommends funding mandated costs with a request for general fund increases for COF stipends and fee-for-service contracts. Staff recommends that the stipend amount be increased by 3.5 percent – the current estimate for CPI – which equates to \$2,670 for a student taking fifteen credit hours. At this level, the stipend would fund 16.5 percent of mandatory costs. The enrollment figures used in calculating the COF stipend numbers are derived from the most recent census report submitted by the data personnel at each institution and inflated for projected growth in FY 2007-2008. The remaining portion of those increased costs would be paid for with fee-for-service contracts that purchase educational services from institutions including graduate education, specialized education, health care career training, rural education, and high cost critical career education.

Pursuant to C.R.S. §23-18-202, eligible undergraduate students attending private institutions participating in the College Opportunity Fund Program may receive a stipend in the amount of fifty percent of the stipend amount set for the state institutions. Currently, there are two private institutions eligible to receive COF stipends: University of Denver and Regis University. Based on enrollment and financial data provided by eligible institutions and the recommendation to increase the full stipend amount by 3.5%, staff recommends a request to increase the general fund allocation for COF stipends at participating private institutions in the amount of \$2,181,890.

2. Financial Aid

Need-based financial continues to be a high priority for the Commission. Increasing the amount of need-based financial aid has become even more important given the unavoidable increases in tuition at state institutions of higher education. At the direction of the Commission, staff has developed a financial aid allocation methodology that addresses concerns with respect to transparency, transportability and equity. The Commission has been well-informed by staff regarding the details of the financial aid reforms which will be brought to the Commission for adoption at the November 2nd meeting. In order to fully implement these reforms in financial aid, the Commission must request an increase of at least \$5.3M in general fund dollars. If funded, the request for additional financial aid will be allocated in accordance with the Commission's financial aid policies and guidelines.

3. Base Restoration

As discussed above, the NCHEMS study provides an independent analysis of the current state of funding for our higher education system. In order to bring Colorado within the range of the average peer benchmarks, the system would require an additional \$821M in general fund. Staff recommends a conservative goal of \$500 over 5 years, with a first year step \$100M. Starting with mandated costs as the base request at \$66.8M, adding an increase in financial aid and funding the second year of the unfunded enrollment request (calculated and partially funded last year), would bring higher education to its first year goal. Importantly, although the statutory basis for this request is “unfunded enrollment,” the true purpose of the request will be forward looking – to reach a reasonable funding level goal and focus the state on the future of higher education and ensuring that our institutions can continue to provide high quality and affordable educational opportunities to Colorado residents.

[Attachment C](#) shows the specific general fund allocation to each institution from the \$25M in base

restoration funding.

4. Area Vocational Schools and Local District Colleges

There are four area vocational schools operating in the state of Colorado: Emily Griffith Opportunity School in Denver, T.H. Pickens Technical Center in Aurora, Delta-Montrose Area Vocational-Technical Center in Delta, and San Juan Basin Technical School in Cortez. The schools' primary mission is post-secondary vocational training, which means that the general fund support they receive through the division of occupational education is their primary source of funding. The recommendation is to provide the AVS with a 3.5% (CPI) increase of \$337,257.

The local district junior colleges are public, two-year, post-secondary institutions dedicated to responding to the educational needs of their local taxing districts. Local district junior colleges, Colorado Mountain College and AIMS College, are currently general funded at the level of \$13,668,051. The Commission recommends an increase of 3.5% (CPI), \$478,382.

B. Tuition Revenue Spending Authority

Decision Items are considered to be any request for authority to increase spending above the mandated costs, financial aid and base restoration. In prior years, institutions had almost no flexibility to increase revenues and were required to drastically cut their budgets. Although this helped to drive efficiencies, it also resulted in decreased opportunity for quality and access initiatives. With the passage of the College Opportunity Fund and negotiation of performance contracts, institutions are now able to submit decision items for increased spending tuition authority for specific initiatives to expand access and/or improve quality. Decision items submitted by institutions this year totaled \$96M. It is important to note that in most instances, institutions expressed a clear preference for their initiatives to be funded, if possible, through general fund dollars before resorting to tuition increases.

The Commission staff reviewed institutions' requests and are recommending approval of moderate tuition revenue spending authority increases. Although some institutions did not submit decision items, staff is recommending small tuition revenue spending authority increases for those institutions in order to allow them the flexibility to cover any under-funded or unanticipated mandatory costs and/or make any necessary market adjustments to tuition rates or structures.

To assist the Commission in reviewing the institutions' decision items, staff has prepared a summary chart that shows the purpose and amount of the requests compared to total mandated costs ([Attachment D](#)).

Based on the level of general fund request recommended above and the commitment of the Governor and the Commission to maintain the affordability of higher education for Colorado residents, staff recommends approving tuition revenue spending authority to fund initiatives for quality, access and other top governing board priorities as follows:

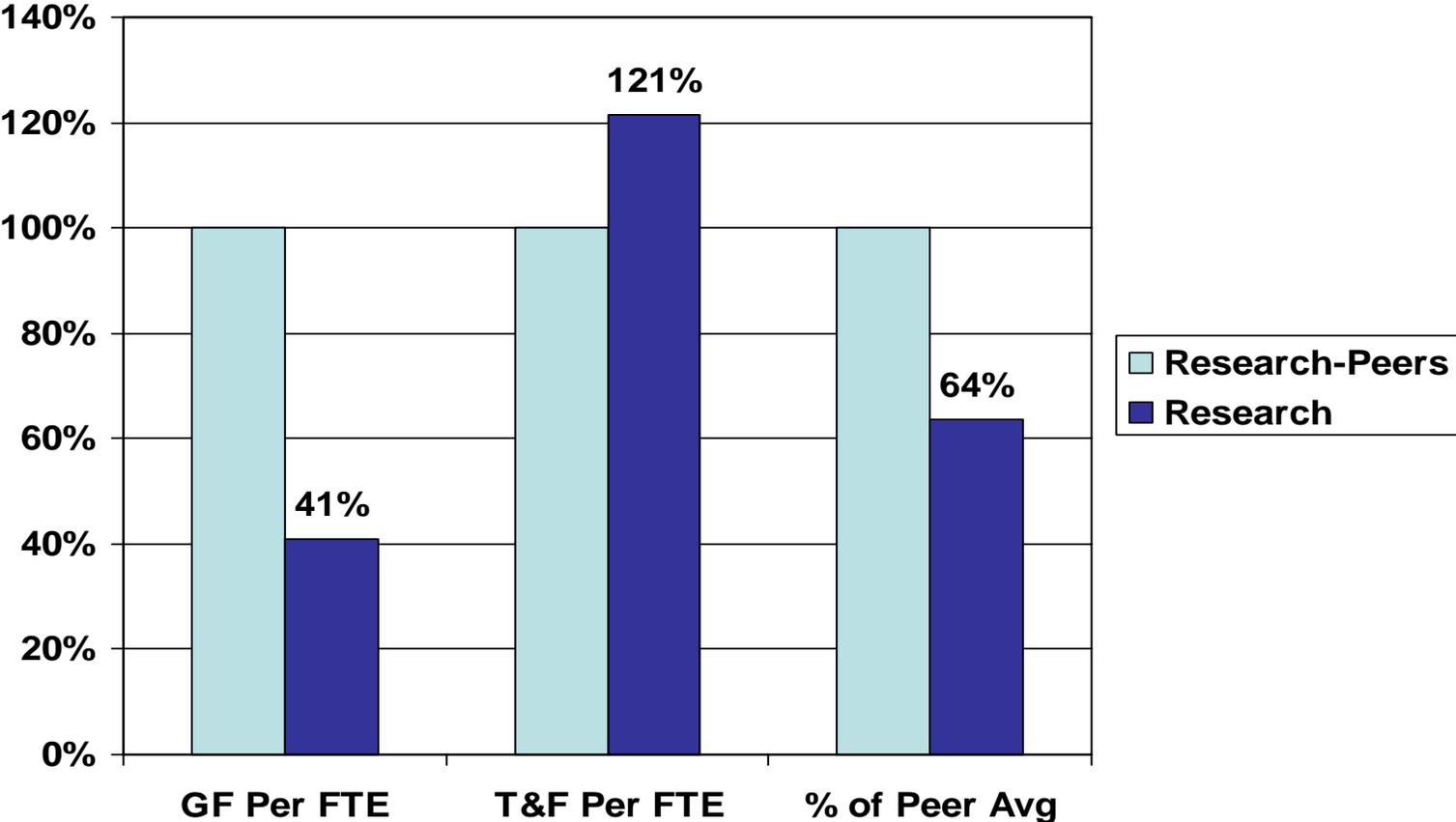
- Three percent increase in tuition revenue spending authority for the Community College System

- Five percent increase in tuition revenue spending authority for the four year institutions
- Seven percent increase in tuition revenue spending authority for the research institutions

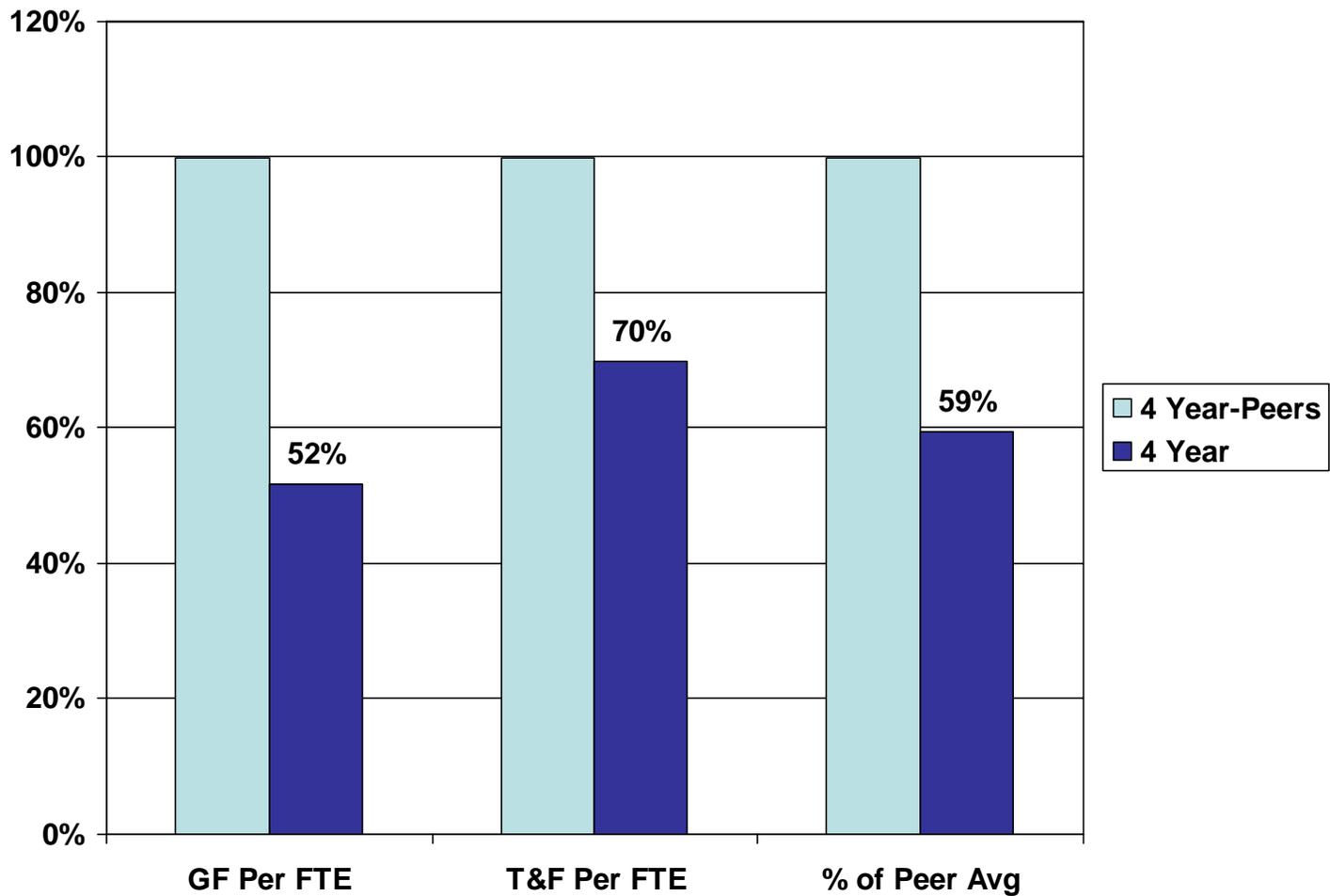
III. STAFF RECOMMENDATION

That the Commission approve the budget for the Department as set forth herein and the attached documents. That the Commission approve this budget as the first year of a five-year funding plan to reach the funding benchmark levels identified in the NCHEMS study. That the Commission direct staff to further refine the data provided in the study and make recommendations for the Commission's five-year funding plan that will ensure adequate and equitable funding of higher education institutions in a manner consistent with the priorities of the state and the Commission. That the Commission authorize staff to make any minor or technical adjustments to the budget as may be necessary during the legislative process.

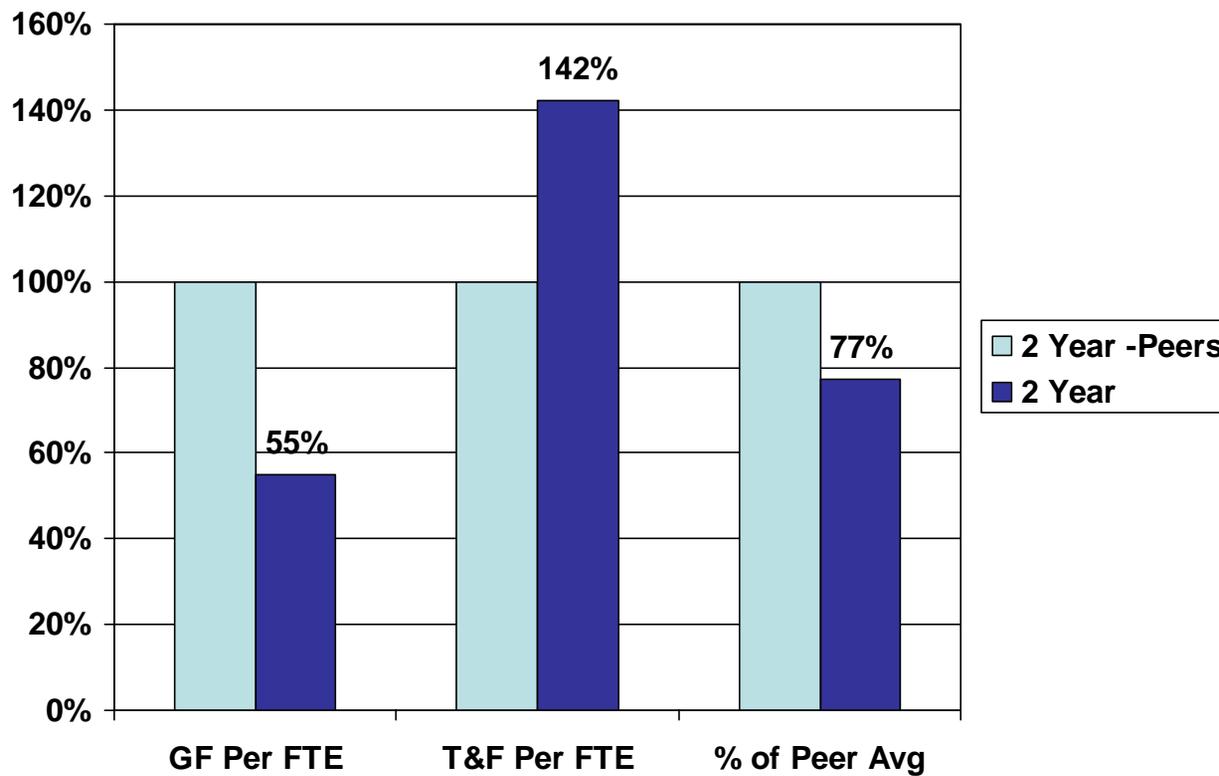
Research Institutions



4-Year Institutions



2-Year Institutions



Attachment B

Department of Higher Education FY 2008 MANDATED COST MODEL

UNFUNDED MANDATED COSTS

		TOTAL	ASC (FY 07-08)	MSC (FY 07-08)	MSCD (FY 07-08)	WSC (FY 07-08)	CSUS (FY 07-08)	FLC (FY 07-08)	CU (FY 07-08)	CSM (FY 07-08)	UNC (FY 07-08)	CC (FY 07-08)	AHEC (FY 07-08)
Salary base year (Budget Data Books FMT 1100-1900)													
Salary - Classified Staff		244,683,418	2,591,360	2,667,523	8,122,890	2,017,062	49,658,809	4,020,670	116,182,453	10,335,217	12,109,000	31,938,673	5,039,761
Benefits - Classified Staff		53,003,715	689,645	673,724	1,527,748	478,991	11,038,487	859,077	25,323,839	2,242,743	2,736,600	6,259,474	1,173,387
Salary - Exempt Staff		723,823,917	8,671,997	17,853,557	46,678,155	8,636,366	142,594,165	15,641,904	299,890,153	26,890,295	41,287,800	114,866,841	812,684
Benefits - Exempt Staff		129,473,668	1,743,219	4,110,017	7,110,964	2,152,608	23,164,043	3,008,828	59,751,624	5,760,087	8,072,700	14,442,495	157,083
Salary and Benefits Increase Total	*	1,150,984,718	13,696,221	25,304,821	63,439,757	13,285,027	226,455,504	23,530,479	501,148,069	45,228,342	64,206,100	167,507,483	7,182,915
FY 05-06 "Salary"base inflated by the avg. of Total Comp Survey (*does not include Other Current Expense)	3.4%	32,929,249	382,954	697,717	1,863,236	362,217	6,536,601	668,528	14,146,469	1,265,667	1,815,491	4,991,387	198,983
HLD % of Benefits-Classified		10,818,722	180,498	206,833	339,886	150,153	2,136,775	302,028	3,113,595	1,361,139	857,988	1,831,392	393,807
HLD % of Benefits -Exempt		29,013,548	734,679	1,635,787	1,937,195	747,627	8,893,083	945,151	4,407,222	4,951,919	1,093,929	3,952,093	81,464
AED Incremental Increases		2,279,997	44,468	46,469	155,323	26,122	369,925	45,337	671,825	172,536	97,645	605,692	44,656
Benefits base inflated by average of DPA policy	15.2%	6,126,696	139,290	280,447	346,572	136,642	1,678,744	189,821	1,144,668	960,847	297,082	880,246	72,336
Total Benefits		8,406,693	183,758	326,915	501,895	162,764	2,048,669	235,157	1,816,493	1,133,383	394,727	1,485,938	116,992
Projected Increase for Salaries and Benefits 2007 and 2008		41,335,942	566,712	1,024,632	2,365,131	524,980	8,585,271	903,685	15,962,962	2,399,051	2,210,218	6,477,326	315,975
FY 2008 Risk Management Allocations (DPA)													
Liability		782,131	21,333	44,194	161,890	30,272	95,124	18,102	-	140,530	-	205,541	65,145
Worker's Compensation		3,085,941	300,661	142,702	161,941	37,893	305,171	243,426	-	282,999	-	1,261,235	349,913
Property		3,361,287	272,538	286,697	15,258	252,667	182,771	246,738	-	609,494	-	1,005,898	489,226
Total		7,229,359	594,532	473,593	339,089	320,832	583,066	508,266	-	1,033,023	-	2,472,674	904,284
RM Difference 07 and 08		2,394,815	41,917	(72,915)	61,259	(120,417)	892,524	(16,836)	1,605,563	135,867	172,025	(390,877)	86,704
FY 2007 Utilities Costs (BDB, FMT 1700, ln16)		71,717,449	942,750	1,099,856	424,214	845,000	13,942,307	847,836	31,813,231	2,342,113	4,536,600	10,098,349	4,825,193
FY 2008 Additional Utilities Costs (BDB, FMT 1700, ln16)	15.2%	10,901,052	143,298	167,178	64,481	128,440	2,119,231	128,871	4,835,611	356,001	689,563	1,534,949	733,429
AHEC Costs distributed to CCD, MSCD, and UCD		1,660,826			820,448				576,307			264,071	
FY 2008 New Building and Other Utility Issues		3,175,947	10,000			40,515	1,427,949		1,662,483	35,000			
<i>Mandated Cost Add-On from FY2007</i>		<i>8,500,000</i>	<i>103,325</i>	<i>298,008</i>	<i>980,732</i>	<i>103,188</i>	<i>1,314,026</i>	<i>176,288</i>	<i>1,931,650</i>	<i>184,905</i>	<i>611,676</i>	<i>2,796,202</i>	
FY 2008 Total Mandated Cost Increases		66,832,473	865,252	1,416,903	4,292,050	676,707	14,339,000	1,192,008	26,574,576	3,110,824	3,683,482	10,681,671	(1,660,826)

Attachment C

Governing Board	Base Restoration
University of Colorado	6,545,091
Colorado State University System	2,972,410
Adams State College	163,026
Mesa State College	802,559
Metropolitan State College	2,905,836
Western State College	181,511
Fort Lewis College	75,173
University of Northern Colorado	1,003,093
Colorado School of Mines	1,315,140
Community Colleges of Colorado	9,036,161
Total	25,000,000

Attachment D

Summary of Institution/Governing Board Decision Items

	Requested Initiatives*	Requested Amount	Mandated Cost Increases
Colorado School of Mines	Engineering/Research Block Grant	2,800,000	3,110,824
Colorado State University			
CSU FC	Quality Initiatives	22,600,000	
CSU P	Floor Funding	3,077,244	
Total CSU Governing Board		25,677,244	14,339,000
Fort Lewis College			
	Faculty Staff Comp over MCM	370,000	
	Development Office Funding	200,000	
	Recruitment Outside CO	100,000	
	Supplemental Instruction Program	230,000	
	Financial aid	500,000	
Total Fort Lewis		1,400,000	1,192,008
Mesa State College	The Year of the Classroom	3,350,000	1,416,903
Metropolitan State College of Denver			
	Academic Support Program	700,000	
	Tenure Track Faculty	2,600,000	
Total Metropolitan State College of Denver		3,300,000	4,292,050
**Univ. of Colorado System			
	HSC Unfunded Enrollment	11,065,938	
	CU Base Restoration	20,822,849	
Total University of Colorado System		31,888,787	26,574,576
University of Northern Colorado			
No Tuition Increase Anticipated	Nursing Program Enhancement	400,000	
	National Ctr for Nursing Educ.	500,000	
	Public Health program	500,000	
	M.S. in Biotechnology	775,000	
	Math and Science Education	500,000	
	Special Education Rural NCLID	250,000	
	Urban Ed Center	1,000,000	
	ESL	250,000	
	Community Development/Outreach	500,000	
	Institute for Disaster Preparedness	75,000	
	Student Access	2,500,000	
	Student Disability Support	500,000	
	Information Technology	1,000,000	
	Diversity Initiative	250,000	
	Baldrige Performance Excellence	500,000	
Total University of Northern Colorado		9,500,000	3,683,482
***Community College System			
Expect to limit tuition increase to CPI	Rural/Urban Cross-Subsidation: Phase I	6,600,000	
	High Cost Workforce Program: Phase I	8,400,000	
	Full-Time Faculty Salaries: Phase I	3,100,000	
Total Community College System		18,100,000	10,681,671
GRAND TOTAL DECISION ITEMS		96,016,031	
*Assumes general fund dollars for mandated costs and base restoration			
**CU is pending Regent Approval			
***CCCS only requests 3.5% increase on Tuition Revenue			
Decision Items reflect early priorities and may not have been acted on by Governing Boards			