

**TOPIC: NEW COMMISSION POLICY REGARDING FUNDING MODEL –
UP FRONT INFLATION ADJUSTMENT**

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I. BACKGROUND

The Commission last year endorsed the effort to develop a funding model for the allocation of state General Fund support to governing boards based on the National Center for Higher Education Management Systems (NCHEMS) funding study, which established a funding gap for each state institution when compared to comparable peer institutions. The revenue gap between each Colorado institution and its peer revenue average was to become the basis for the allocation of FY08-09 and subsequent years state General Funds.

Because consensus among institutions on the NCHEMS-gap model could not be reached in time for the FY08-09 budget submission, the Commission approved a model that allocated an across-the-board percentage increase to each governing board. The institutions' Chief Executive Officers (CEOs) raised a number of policy concerns and agreed to address these concerns individually in order to reach consensus on an NCHEMS based approach to the FY09-10 state funding recommendation. It was agreed that these concerns would be disaggregated and vetted through the Commission's Policy Committee, the Commission as a whole during a study session, the CEOs and the institutions' Chief Financial Officers (CFOs) prior to recommending Commission approval.

The Department is required to submit to the Governor's Office of State Planning and Budgeting (OSPB) its initial FY09-10 budget request by August 1, 2008. In order to meet this deadline, the policy concerns must be addressed. One of the concerns that arose during the funding model discussion last year was whether the "pure" NCHEMS funding gap approach should be modified in some manner to account for the inflationary pressures on institutional budgets that all institutions experience regardless of their size or their relative position when compared to peer institutions.

II. STAFF ANALYSIS

Prior to allocating state funds to institutions based on each institution's percentage share of the NCHEMS funding gap, the funding model should initially provide a General Fund allocation based on the inflation rate estimated by the OSPB for the upcoming budget year. This rate would be applied to each institution's previous year appropriation. Remaining funds would be allocated based on the NCHEMS funding gap, in a manner to be determined by the Commission after further review by Policy Committee, CEOs, CFOs, and during future Commission study sessions.

OSPB publishes inflation estimates as part of their quarterly revenue forecasts on the 20th of March, June, September, and December of each year. The August 1st budget submission for FY09-10 would therefore be based in part on the inflation estimate from the June 20th forecast with the understanding that the submission would be adjusted as necessary to keep it current with the most recent estimate. Last year, OSPB's estimate for inflation in the current year was reduced from 2.9 percent to 2.2 percent by the March 20th forecast.

The policy language below summarizes the recommendation to provide an initial up front inflationary adjustment prior to allocating state General Funds based on the NCHEMS funding gap:

The Commission recognizes that each institution will incur increases in costs each year for various budget items, like utilities and employee compensation, which have to be accommodated in their budgets. In order to account to some extent for such inflationary or mandated costs, in developing the general fund budget allocation in the budget process each year, each institution should initially receive an adjustment at the rate of the then-current estimate by the Office of State Planning & Budgeting for inflation in the coming budget year.

Once all of the various components of the funding model are approved by the Commission, Commission Policy II C will be revised and brought before the Commission to reflect the inflationary adjustment component and the various other funding model components the Commission approves.

III. STAFF RECOMMENDATION

That the Commission approve including an initial, up front inflationary adjustment prior to allocation remaining state General Funds in their recommended funding model/budget request for FY09-10.

STATUTORY AUTHORITY

C.R.S. 23-1-105 (8)