

*Draft Policy Regarding Treatment of Other Revenues in NCHEMS-Gap Allocation Model*

The NCHEMS-gap allocation model is based on the revenue needed by each Colorado public institution of higher education to reach the average revenue level of an agreed-upon set of national peer institutions. The NCHEMS peer analysis was updated in 2007 in terms both of peer institutions and estimated comparable revenues, and each institution approved the peers for their own and for other state institutions. That agreement was ratified by the Commission. The revenue gap between each of our institutions and its peers is to be the basis for the allocation of general funds for FY2010 and subsequent years, in order to move each of our institutions to parity with its national peers over time.

The only revenue sources considered in the NCHEMS analysis are all state and local government support and total tuition and fees (both resident and nonresident), as these are the only revenue items for which there is national data in the Integrated Postsecondary Education Data System (IPEDS). The question arose as to whether the calculation of an institution's revenue gap should also be adjusted to account for other sources of revenues, e.g., foundation support, gifts, and research grants.

The Commission is mindful that the ability of different state institutions to generate other sources of revenue varies greatly. While the proposition of making some adjustment to the NCHEMS-gap allocation model to account for such other revenues has initial appeal, the Commission concludes that difficulties and costs in defining and implementing a method to make such adjustments outweigh any potential benefits. Most importantly, the Commission finds that the NCHEMS-gap for each institution – based as it is only on state and local government support and total tuition and fee revenues – is the most workable basis for determining an institution's relative need and then its fair share of state support.

If an adjustment were to be made on account of other revenues received by Colorado institutions, it would logically require making similar adjustments to the revenue data for their peers in order for the revenue data to remain a sound basis for determining relative need. Since no such revenue data is reported in IPEDS, any adjustment for other revenues would require a survey of the peer institutions to obtain the relevant data. Assuming a survey could be accomplished with decent accuracy and at reasonable cost, which is unlikely, the net effect would likely be primarily to increase the overall revenues taken into account at both Colorado institutions and their peers, without necessarily affecting significantly the size of the revenue gap.

An additional complication in any effort to assess the effect of other sources of revenue stems from the fact that most grants, gifts and endowment accounts carry restrictions that preclude their being applied to regular institutional operating revenues.

The Commission is concerned that an unintended consequence of a policy to account for other revenues could be to discourage institution's efforts to generate such revenue.

For these reasons, the Commission endorses a policy of counting only all state and local government support and tuition and fees (both resident and non-resident) as revenues toward closing the NCHEMS revenue gap calculated for each institution.