

TOPIC: FISCAL YEAR 2009-10 COMMISSION BUDGET REQUEST

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I. SUMMARY

On November 1, 2008, the Governor's office delivered his budget recommendation to the Joint Budget Committee (JBC) recommending \$40,000,000 in new General Fund for higher education. The Governor's office delivered a revised recommendation on November 11, 2008 that allocated the \$40,000,000 to the governing boards, local district colleges, area vocational schools, and to the state's financial aid programs.

This action item presents the FY09-10 budget request submission to the JBC from the Colorado Commission on Higher Education (Commission) as provided by statute: "The funding recommendation made by the commission for state-supported institutions of higher education shall be made to the governor and the general assembly as part of the budget request for the department of higher education...." (C.R.S. 23-1-105 (8)),

The overall funding request is based on the Commission's stated objective to close the funding gap of Colorado institutions when compared to their peer institutions within ten years (by FY16-17), assumptions regarding the tuition policy the General Assembly will likely adopt for FY09-10, and the statutory requirements to fund various financial aid programs. The following table provides the increases in new dollars for the various program areas specified in the budget request:

Summary of FY09-10 Budget Request

Program Area	FY09-10 Request	Increase
Total COF/FFS Allocation to Governing Boards	70,000,000	10.3%
COF Stipends to Private Institutions	159,975	14.5%
Local District Colleges	587,940	3.7%
Area Vocational Schools	1,123,761	10.0%
Need Based Financial Aid	7,408,803	10.0%
Work Study Financial Aid	2,469,601	14.8%
FLC Native American Tuition Waivers	1,263,548	15.1%
Total General Fund	83,013,628	10.6%
Tuition Spending Authority	75,150,799	6.4%

II. BACKGROUND

In 2006 the Department of Higher Education contracted with the National Center for

Higher Education Management Systems (NCHEMS) to conduct a funding study comparing the relative funding level of each Colorado institution of higher education to a group of national peers. This revenue study used data from the Integrated Postsecondary Education Data Systems (IPEDS), a comprehensive national repository of institutional data administered by the U.S. Department of Education. For comparative purposes the original study, and subsequent updates, looked at the two main sources of revenue institutions have available to cover their general operating expenses: state and local appropriations, and total tuition revenue, less any discounts and allowances. Using this data, the study estimated a per student FTE funding gap for each institution when compared to the average funding of their peer group.

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 NCHEMS funding study. However, because consensus among institutions could not be reached in time for the FY08-09 budget submission, the eventual allocation model approved by the Commission last year was not based on the NCHEMS funding gap; instead, the Commission approved a model that allocated an across-the-board percentage increase to each governing board. In the end, the final allocation the Joint Budget Committee (JBC) adopted was based, in part, on the gap analysis.

Over the summer, the Commission considered various policies and funding models as the basis for the allocation of state General Funds in FY09-10 and subsequent years, resulting in the adoption of an allocation model at the September 2008 meeting. The recommended allocation of state General Funds between governing boards described below is calculated from this model, which is made up of three component parts summing to a total allocation for each governing board:

1. Inflationary Adjustment – Governing boards receive an inflationary adjustment on their College Opportunity Fund (COF stipend/fee for service appropriations [and tobacco revenues for the CU Health Sciences Center] based on the most current Office of State Planning and Budgeting (OSPB) inflation estimate for CY 2008. As of the September 2008 forecast, inflation is estimated at 3.7%.

After adjusting for inflation, any remaining new state funds are split 50/50 between the second and third components in the model.

2. NCHEMS Gap Closure –This second component then allocates these funds based on each governing board's share of the NCHEMS resident FTE gap (i.e., a governing board with 10% of the gap would receive 10% of this portion of the allocation).
3. Tuition Backfill – The third component allocates the other half of the funds available after the inflationary adjustment in a manner that balances out each governing board's ability to raise tuition revenue – essentially in inverse relation to the assumed limitations on tuition included in the Long Bill footnotes. For FY 09-10, the model assumes continuation of recent resident tuition rate increase limits of 5%, 7%, and

9% at the community colleges, four year institutions, and the research institutions, respectively.

The funding model the Commission approved further stipulates that the local district community colleges receive an inflationary increase (3.7%) and that the area vocational schools receive the same percentage increase as the average for the governing boards.

The Governor's office has requested an increase of \$40,000,000 new General Fund in FY09-10 for higher education. A majority of this increase is allocated to the governing boards through the Commission's funding model, with the remaining portion allocated to the local district colleges, area vocational schools, and to financial aid programs. Unfortunately, the current economic situation and less than anticipated revenues available for state programs have imposed further constraints, given that the Governor's office and the JBC must still submit a balanced budget. The Governor's office has submitted a balanced budget even though the caseload for some mandatory programs has grown significantly (e.g., Medicaid). The Governor's office has recommended a \$376,000,000 (4.98%) General Fund increase in FY09-10, allowing for \$77,000,000 to be set aside as a rainy day fund in order to provide a modest cushion against possible further deterioration in FY09-10 state revenues.

The Commission's primary goal with respect to funding is to enable Colorado institutions to close the NCHEMS gap thereby achieving the average funding levels of their peers by FY16-17. Since the original NCHEMS study, the institutions have been funded for FY07-08 and FY08-09. With a goal of ten years to close the NCHEMS gap, the total request for both new FY09-10 state General Fund and tuition spending authority is based on the estimated revenue needed to close the overall funding gap in the next eight years, i.e., with FY07-08 and FY08-09 as years one and two of the Commission's goal of closing the gap in ten years.

In addition, this agenda item presents the FY09-10 stipend amount per student full time equivalent (FTE), the split between College Opportunity Fund (COF) stipends and fee for service contracts, the FY09-10 funding for the area vocational schools and the local district colleges, and funding for state financial aid programs. The increases for need and work study financial aid are based on the requirements of C.R.S. 23-3.3-103 which states that annual appropriations to state financial aid programs must increase at the same percentage as the general appropriations to state institutions of higher education.

III. STAFF ANALYSIS

Since the original NCHEMS study was released, the peer groups have been adjusted to be more accurate and to account for various institutional changes, and actual IPEDS FTE data is used instead of full and part time headcount, all to produce a more accurate measure of the relative funding position of Colorado institutions compared to peers. These changes were made with consensus from the institutions of higher education.

(Note: the Commission ratified peer revisions in September 2007 and further necessary revisions to Adams State College's peer group in October 2008.)

Due to these changes, staff has recalculated the FY06-07 funding gap incorporating the peer revisions and using FY06-07 actuals as reported in IPEDS – the most recent data available. FY07-08 actuals will be available in July 2009. Based on this data, the FY06-07 funding gap between Colorado institutions and their peers was approximately \$784 million.

To determine how much revenue (General Fund and tuition) would be required to close the gap in eight more years – assuming that FY07-08 and FY08-09 are years one and two of a ten year gap closure – required making some assumptions about how the peer revenue changes over the relevant time periods. The Department applied a 3.7% inflation factor (projected Higher Education Cost Adjustment (HECA)) to the total peer revenue. Using HECA potentially underestimates how much peer funding has grown and will grow over the gap closure timeframe; however, given the current state of the national economy and the national tendency for higher education budgets to bear the brunt of state budget cuts during recessions, it is likely a more accurate adjustment factor than one that is based on recent peer funding history.

Staff approached this calculation from a macro level inflating the sum of peer institutions by HECA and using FY08-09 total appropriated General Fund and tuition revenue for Colorado institutions to arrive at an estimate of the FY08-09 funding gap. This analysis treats Colorado and peer funding as a whole and does not account for Colorado institutions individually. This calculation yields an estimated FY08-09 funding gap of about \$651,000,000 in total revenue. In order to close this estimated gap by FY16-17 (assuming FY07-08 was year one of a ten year time frame to catch Colorado institutions up to the peer average), institutions will need about \$145,000,000 in FY09-10 total new revenue (General Fund and tuition revenue).

The Commission has advocated for greater governing board discretion with respect to setting tuition policy; however for the purposes of this budget request, it is assumed the General Assembly will limit institutions to rate increases of 5%, 7%, and 9% for the community colleges, four year institutions, and research institutions. These rate increases align with the Governor's recommendation that was submitted to the JBC on November 1st and should generate approximately \$75,000,000 in new tuition revenue (see Tuition Spending Authority section below). The increase in General Fund needed to make progress towards gap closure is therefore \$70,000,000 (\$145,000,000 total revenue needed - \$75,000,000 projected tuition revenue).

The remaining sections of the agenda item describe how the overall Commission budget submission to the JBC is distributed. The submission is further summarized in the chart on page one of the agenda item.

College Opportunity Fund Stipends / Fee for Service Contracts

The overall split between governing boards of the \$70,000,000 in new General Fund is based on the funding model the Commission approved in September 2008. It is statutorily required that the COF stipend be increased by inflation each year. To comply with this requirement, the per FTE FY09-10 stipend should be increased from \$2,760 (\$92 per credit hour) to \$2,850 (\$95 per credit hour). Each governing board’s allocation is then split between COF stipends and the fee for service contract based on the new stipend amount.

The following chart show each governing board’s share of new General Fund and the percentage increase over FY08-09:

FY09-10 COF and Fee for Service Contracts Total Request

	FY08-09 Total	FY09-10 Requested Increase	Percentage Increase	FY09-10 Total Allocation
ASC	14,608,449	1,091,784	7.5%	15,700,233
MSC	24,005,607	2,401,757	10.0%	26,407,364
MSCD*	49,713,412	6,252,658	12.6%	55,966,070
WSC	12,173,017	943,267	7.7%	13,116,284
CSU System**	146,891,512	14,041,729	9.6%	160,933,241
FLC	12,736,330	1,225,918	9.6%	13,962,248
CU System	209,099,449	23,072,267	11.0%	232,171,716
CSM	23,237,386	1,770,423	7.6%	25,007,809
UNC	44,086,311	4,418,298	10.0%	48,504,609
CCCS*	142,320,783	14,781,900	10.4%	157,102,683
Total	678,872,256	70,000,000	10.3%	748,872,256

*Includes additional stipend funding from SB08-079

**Includes additional stipend funding from SB08-166

Appendix A further breaks each governing board’s FY09-10 allocation between COF stipends and the fee for service contract component. It is assumed enrollment will remain flat from the projections in the FY08-09 long bill. The adjustment to each governing board’s COF stipend is due to the increase stipend amount:

Private institutions in Colorado may also apply to participate in the program provided they meet eligibility requirements and enter into a performance contract with the Department. Currently, there are two private institutions participating in the College Opportunity Fund program – the University of Denver and Regis University. Colorado Christian University is expected to apply as a result of the recent decision by the U. S. Court of Appeals over-ruling the Commission’s 2006 decision denying Colorado Christian University’s application due to its “pervasively sectarian” character.

At public institutions, the stipend is not tied to income criteria and is not considered

financial aid; however, in order for a student to be eligible for a stipend at a participating private institution, the student must be eligible for a federal Pell grant and their stipends are considered financial aid. For these eligible students, the stipend amount is set as one-half the stipend awarded to institutions at public institutions. Private institutions do not have a fee for service contract with the Department. The increase in stipends to participating institutions is \$159,975 General Fund. The increase is necessary because of the new stipend amount recommended for FY09-10 and for Colorado Christian University's anticipated participation in the program.

- Current Appropriation: 800 FTE at \$1380 per FTE = \$1,104,000
- FY09-10 Appropriation: 800 FTE at \$1425 per FTE = \$1,140,000 (\$36,000 increase)
- FY09-10 Placeholder for Colorado Christian University = \$123,975

Local District Colleges

There are two local district junior colleges (LDCs), Aims Community College and Colorado Mountain College. These colleges are public, two-year, post secondary institutions that are not part of the Colorado Community College System. In addition to state appropriations and tuition revenue, these institutions have a local property tax base that generates revenue for both operating and capital needs.

The original NCHEMS study and subsequent updates found that these two institutions are actually funded at a level that is higher than their peer average per FTE, primarily because the portion of their local property tax that is used for operating is included in the gap calculation. It is important to note that local appropriations is one of the revenue sources considered for all institutions (Colorado and all peers) in the NCHEMS analysis. As such, the LDCs are not being treated differently than the other institutions in the study. Because these institutions operate at a funding level above their peer institutions, the Commission-approved funding model provides an inflationary increase of \$587,940 to the LDC FY08-09 base appropriation of \$15,890,257 based on the current inflation estimate from the Governor's Office of State Planning and Budgeting (3.7%). With this increase the FY09-10 General Fund for the two local districts colleges is \$16,478,197.

Area Vocational Schools

Colorado has four area vocational schools (AVS), the Emily Griffith Opportunity School in Denver, T.H. Pickens Technical Center in Aurora, the Delta-Montrose Area Vocational-Technical Center in Delta, and the San Juan Basin Technical School in Cortez. These schools provide low-cost access to business and industry training within their communities. Due to the budget shortfall during the last economic downturn, state funding for these schools was cut in FY03-04 and was nearly restored to pre-recession levels in the FY08-09 appropriation. Based on the funding model, the AVS schools receive the average percentage increase provided to the governing boards. This 10.0% increase of \$1,123,761 to their FY08-09 base appropriation of \$11,202,546 increases

their total FY09-10 General Fund appropriation to \$12,326,307 and would fully restore the cuts from FY03-04.

Financial Aid

The General Assembly is statutorily required (C.R.S. 23-3.3-103) to increase state appropriations to financial aid programs by the same percentage as the increase of all General Fund appropriations to state institutions of higher education. The total General Fund increase of \$71,711,747 (allocations to governing boards, local district colleges, and area vocational schools) is approximately a 10% increase on the base FY08-09 appropriation of \$705,965,059 General Fund. Complying with this statute requires allocating \$9,878,404 total new General Fund to the need-based (\$7,408,803) and work study (\$2,469,601) aid programs. Overall this represents a 10% increase to the FY08-09 base appropriation of \$97,247,775 for a total FY09-10 amount of \$107,126,179. These increases to the need-based and work study programs continues the Commission's and the state's commitment to better fund financial aid programs that assist Colorado students with documented need to cover the expense of pursuing higher education.

Fort Lewis College (FLC) waives the cost of tuition for their Native American students as part of a long-standing obligation to the Federal government. The General Assembly is required to reimburse the college "from the state general fund one hundred percent of the money required for tuition for such qualified Indian pupils" (C.R.S. 23-52-105 (1) (b)). The state funds these waivers in arrears, meaning the FY09-10 request covers the tuition waived in FY08-09. Based on current enrollment projections and the tuition rate increases FLC implemented in FY08-09 (7.5% resident rate increase, 5.0% nonresident rate increase), an additional \$1,263,548 General Fund on their base FY08-09 appropriation of \$8,359,421 is necessary to cover the FY08-09 waivers. The total cost of FY09-10 tuition waivers is \$9,622,969.

Tuition Spending Authority

As mentioned above, the Commission has publicly advocated for governing boards to have greater discretion to determine appropriate tuition levels at their institutions. However, it is assumed that the final FY09-10 tuition policy adopted in the Long Bill will be similar to the policy in FY08-09. The Commission's submission to the JBC is, without endorsing these limits, based on the following tuition policy:

- Colorado Community College System – 5 percent rate increase for resident undergraduate students
- State Institutions (Adams State College, Fort Lewis College, Mesa State College, Metropolitan State College of Denver, and Western State College) – 7 percent rate increase for resident undergraduate students
- Research Institutions (University of Colorado System, Colorado State University System, Colorado School of Mines, and the University of Northern Colorado) – 9 percent rate increase for resident undergraduate students

- No rate or revenue limits on allowable increases for resident graduate students and nonresident students

For budgeting purposes, the staff has assumed that governing boards will increase resident graduate rates by the same rate as the requested undergraduate rate increase and all nonresident rates by five percent to estimate the spending authority needed in FY 2009-10. It is likely that adjustments through the supplemental process will be required once governing boards set tuition rates in 2009 for the 2009-10 academic year. Projected tuition spending authority from the tuition policy is show in the following chart:

Projected FY09-10 Tuition Spending Authority by Governing Board

FY 2009-10 Projected Tuition Spending Authority					
		FY08-09 Total Tuition Spending Authority from JBC Appropriations Report (H.B. 08-1375 and S.B. 08-079)	Requested FY09-10 Rate Increase	FY09-10 Projected Total Tuition Spending Authority	FY09-10 Tuition Spending Authority Increase
ASC	Resident	4,917,565	7%	5,261,795	344,230
	Nonresident	2,893,983	5%	3,038,682	144,699
	Total	7,811,548		8,300,477	488,929
MSC	Resident	19,740,816	7%	21,122,673	1,381,857
	Nonresident	5,302,988	5%	5,568,137	265,149
	Total	25,043,804		26,690,810	1,647,006
MSCD	Resident	46,627,706	7%	49,891,645	3,263,939
	Nonresident	5,770,174	5%	6,058,683	288,509
	Total	52,397,880		55,950,328	3,552,448
WSC	Resident	4,704,785	7%	5,034,120	329,335
	Nonresident	4,602,637	5%	4,832,769	230,132
	Total	9,307,422		9,866,889	559,467
CSU Sys	Resident	109,430,319	9%	119,279,048	9,848,729
	Nonresident	95,834,719	5%	100,626,455	4,791,736
	Total	205,265,038		219,905,503	14,640,465
FLC	Resident	8,202,221	7%	8,776,376	574,155
	Nonresident	16,544,310	5%	17,371,526	827,216
	Total	24,746,531		26,147,902	1,401,371
CU Sys	Resident	280,026,965	9%	305,229,392	25,202,427
	Nonresident	246,691,929	5%	259,026,525	12,334,596
	Total	526,718,894		564,255,917	37,537,023
CSM	Resident	30,431,603	9%	33,170,447	2,738,844
	Nonresident	24,957,655	5%	26,205,538	1,247,883
	Total	55,389,258		59,375,985	3,986,727
UNC	Resident	38,609,871	9%	42,084,759	3,474,888
	Nonresident	13,789,005	5%	14,478,455	689,450
	Total	52,398,876		56,563,214	4,164,338
CCCS	Resident	117,856,313	5%	123,749,129	5,892,816
	Nonresident	25,604,183	5%	26,884,392	1,280,209
	Total	143,460,496		150,633,521	7,173,025
Totals	Resident	660,548,164		713,599,384	53,051,220
	Nonresident	441,991,583		464,091,162	22,099,579
	Total	1,102,539,747		1,177,690,546	75,150,799
S.B. 08-166		(28,612)		(28,612)	N/A
Reconciliation with S.B. 08-166		1,102,511,135		1,177,661,934	N/A

IV. PROPOSED ACTION

Endorse the Governor's FY09-10 request for \$40,000,000 in new General Fund to higher education as a necessary accommodation to state fiscal realities; however, note that this increase is insufficient to make significant progress toward closing the peer funding gap at Colorado institutions and that the funding gap between Colorado institutions and their peer institutions may increase FY09-10.

STATUTORY AUTHORITY

C.R.S. 23-1-105 Duties and powers of the commission with respect to appropriations.