TOPIC: **POLICY OPTIONS FOR THE ALLOCATION OF NEW STATE FUNDS IN FY09-10**

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I. BACKGROUND

The Commission last year endorsed developing 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 as compared to peer institutions. The revenue gap between each Colorado institution and its peer revenue average was to become the basis, or at least the primary basis, for the allocation of FY08-09 and subsequent years' state General Fund. 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.

This process has provided ample opportunity for discussion and consideration of multiple options for the policy that will drive the Commission's FY09-10 budget recommendation to the JBC in November 2008. To date, the Commission approved at their June 2008 meeting an upfront inflationary adjustment as the first component of their budget recommendation. At the July 2008 Commission meeting, two other agenda items brought before the Commission were tabled to allow for further deliberation by the Commission before setting the policy that will become the basis for the Commission's FY09-10 recommendation. Based on discussions at the Commission's Annual Retreat in August, one of these items has been revised and now presents four different policy options for state funding distribution for the Commission's consideration.

II. STAFF ANALYSIS

Based on the policy the Commission adopted at its June 2008 meeting, each of these options first allocates a portion of estimated additional General Funds based on the most current inflationary estimate for the FY09-10 budget year from the Governor's Office of State Planning and Budgeting (OSPB) – currently 3.0 percent. The current inflationary adjustment means that about $20 million of new General Fund will be allocated first. The Commission's selection of one of the following four options will determine the allocation of remaining additional General Fund in FY09-10. The OSPB issues revenue projections with projections of inflation every three months and it is likely that this projection will change between now and March 2009 when the JBC will set the final General Fund allocations, thus possibly having an impact on the amount in new General Funds available for distribution.

The variance in the four options reflects the consequences of the broad policies which they would implement. The Resident Student FTE option has state dollars apportioned proportionately to state students. The Total FTE option would apportion those funds proportionate to all students, including non-residents. The option proposed by the University of Colorado System (CU System) reflects the premise that Colorado institutions should be charging resident undergraduate tuition rates comparable to their peer institutions. Finally, the Colorado Community College System (CCCS) option would reflect both resident student FTE and the limitations imposed on certain institutions to raise tuition revenues relative to other state institutions because of legislative provisions or other factors.

Resident Student FTE Option

The Department of Higher Education Resident FTE option calculates the per student FTE gap for each institution using the available national data collected in the Integrated Postsecondary Education Data System (IPEDS). This data was the basis for the original NCHEMS Study:

Total revenue per student FTE for peers (General Fund + Total Tuition Revenues)
- Total CO institution's revenue per student FTE (General Fund + Total Tuition Revenues)
= Total Revenue Gap per student FTE

Each institution's total revenue gap per student FTE is then multiplied by the institution's *resident* student FTE to arrive at its gap. After adjusting for inflation (per the policy the Commission adopted at its June 2008 meeting), remaining funds would be allocated proportionately based on each institution's percentage share of the total gap. In other words, an institution with ten percent of the resident FTE total revenue gap would receive ten percent of the remaining General Fund allocation.

This option relies on the Total Revenue Gap per student FTE as the basis for General Fund allocations, the rationale being that these are the two main sources of revenue that institutions have to cover general operating expenses. Relying on total revenues is an attempt to further recognize and account for the varying abilities of institutions to generate tuition revenue due to legislative limitations, market factors, ability to attract nonresident students, and their unique role and mission. At the May 2008 Commission meeting, the Commission stated its intent to allocate "state dollars for state students." This option meets the Commission's stated intent by multiplying each institution's per student FTE gap by resident student FTE only.

Total Student FTE Option

Like the first option discussed above, the Total Student FTE option calculates the per student FTE gap for each institution using the data available in IPEDS and then multiplies each institution's per student FTE total revenue gap by *total* student FTE (both resident and nonresident FTE) to arrive at the institution's total revenue gap. After adjusting for inflation (per the policy the Commission adopted at their June 2008 meeting), remaining funds are allocated proportionately based on each institution's percentage share of the total FTE gap. In other words, an institution with ten percent of the total FTE total revenue gap would receive ten percent of the remaining General Fund allocation.

Compared to the Resident Student FTE option discussed above, this option would provide more funding to institutions with larger nonresident populations because it accounts for this population in the gap calculation that in turn drives a significant portion of the allocation. The two options are similar in that both are based on the two main sources of revenue available to institutions to cover their general operating expenses and do not depend on any assumptions or goals about tuition revenue for each institution.

University of Colorado System Option

The University of Colorado System (CU System) option sets the peer total revenue per FTE established in the NCHEMS study as the end goal and attempts to calculate a per FTE General Fund gap for each institution using a variety of sources:

Total revenue per student FTE for peers (General Fund + Total Tuition Revenues)
- Average peer published resident undergraduate tuition rate
= Assumed per FTE state General Fund support for peers
- FY08-09 estimated General Fund per Colorado resident FTE
= General Fund shortfall per resident FTE

Based on the data the CU System provided to the Department, this option would allocate a significant portion of additional General Funds to the CU System institutions because their institutions are already closer to their peers in the tuition rates charged to students, making their gap primarily General Fund. In contrast, because this option assumes each Colorado institution charges the same undergraduate tuition rate as do their peers *prior to calculating a gap*, in order for the funding gap that drives the allocation in this option to be accurate, some institutions would need to immediately implement significant tuition rate increases to bring their resident undergraduate tuition rates to peer parity:

- CSU – 17.5% increase
- MSC – 39.0% increase
- ASC – 42.7% increase
- CSU-P – 56.5% increase
- FLC – 64.3% increase
- MSCD – 66.7% increase
- UNC – 67.2% increase
- WSC – 77.2% increase

Colorado Community College System Option

As discussions on the various components of a funding option have progressed, leadership at the Colorado Community College System (CCCS) expressed concern over the limited ability of some institutions to raise sufficient tuition revenues. These limitations may be due to role and mission or to legislative mandates established in the Long Bill tuition footnotes. The CCCS option breaks the allocation into three component parts: an up-front inflation adjustment, a gap-based allocation, and finally an allocation of General Fund to institutions with limited abilities to generate tuition revenue.

After the standard adjustment for inflation (per the policy the Commission adopted in June 2008), this option would then allocate one half of the remaining funds proportionately to the resident FTE gap established in the Resident Student FTE option described above. The remaining General Fund would be allocated so as to balance out the legislative limits placed on each governing board's tuition spending authority (i.e., the Long Bill footnotes). The CCCS option assumes the footnotes for FY09-10 will remain consistent from FY 08-09, allowing tuition rate increases for resident undergraduate students of 5.5 percent, 7.5 percent, and 9.5 percent at the community colleges, four year institutions, and research institutions, respectively. (Note: the CCCS is not recommending these rate increases; however, this option acknowledges the likelihood the Long Bill footnotes will allow differing tuition increases by institution type.)

The following chart shows the percentages of new General Funds that would be allocated to each governing board under each proposal. The per FTE data used to establish the funding gap and each institution's share of the overall gap is estimated for FY07-08. The Department is currently working to update these numbers, and the update will probably affect the overall gap as well as each institution's share of the gap. Further adjustments will occur before JBC figure setting as current enrollment data and inflation estimates become available.

FY09-10 Percentage of New General Fund per Governing Board

Governing Board	DHE Resident FTE Model	DHE Total FTE Model	CU System Model*,**	CCCS Model**
CU System	26.7%	28.1%	40.3%	27.9%
CSU System	25.1%	25.6%	24.5%	23.6%
CCCS	17.9%	17.0%	16.5%	21.0%
CSM	2.9%	3.1%	2.0%	2.9%
UNC	6.6%	6.3%	4.2%	6.1%
ASC	1.9%	1.9%	0.9%	2.1%
FLC	2.0%	2.2%	1.3%	2.0%
MSC	3.6%	3.5%	2.4%	3.7%
MSCD	11.3%	10.2%	7.2%	9.4%
WSC	1.0%	1.0%	0.8%	1.4%
LDCs	1.0%	1.0%	NA	NA
AVS	NA	NA	NA	NA
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**

***Note: The CU model set aside ~$6.9 M from a $50 M mark to the CU Health Sciences Center and the CSU Professional Vet Med School. The Dept conservatively assumed that 75% was intended for HSC and 25% for PVM.**

****Note: The CU and the CCCS models set aside a set amount for LDCs and AVS schools, unlike the DHE hypothetical model which includes LDCs in the model directly.**

III. STAFF RECOMMENDATION

That the Commission approve one of the four policy options discussed in this agenda item and recommend this policy as the basis for their budget submission to the JBC on November 1, 2008.

STATUTORY AUTHORITY

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