

TOPIC: GOVERNOR'S BUDGET BALANCING PLAN: IMPACT ON HIGHER EDUCATION

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I. SUMMARY

This item provides an update on the Governor's budget balancing plan and its impact on higher education. The Governor presented his budget balancing plan for FY2008-2009 and FY2009-2010 to the Joint Budget Committee on January 15th and January 27th, respectively. The plan for FY2008-2009 balanced to a General Fund revenue shortfall of \$631.9 million; contingencies were proposed should the shortfall be either more or less than the projection. While the highest priorities were to protect life safety and public health, the Governor protected funding to higher education to the greatest extent possible in both years.

II. BACKGROUND

The Governor's budget proposals are a combination of General Fund reductions, transfers and diversions to the General Fund and a General Fund reserve change. The expenditure reductions include the hiring freeze which includes the Department of Higher Education but not higher education institutions, although many of them have imposed their own hiring freeze. The reserve change seeks statutory authority to provide flexibility to the Executive to reduce the State's 4.0 percent reserve down to 0.0 percent of FY2008-2009 General Fund appropriations at the end of the fiscal year if the General Fund revenues decline beyond the current Legislative Council Staff economic forecast while the General Assembly is out of session. The 0.0 percent is provided as a stop-gap measure in the event of a further downturn of the economy.

The proposals have major budget impacts for higher education institutions in four areas:

- Transfers into the Higher Education and Maintenance Reserve fund and then out of that Fund into the General Fund to mitigate cuts to higher education
- Formulaic reductions for Governing Boards of higher education institutions
- Targeted reductions to mitigate formulaic reductions
- Capital Construction project delays/freeze

III. STAFF ANALYSIS

In FY2008-2009, the budget balancing plan results in a reduction of governing board operating funds of \$30 million, with the majority of the reduction to be taken from the fee for service portion of each governing board's allocation and the balance taken from the local district colleges and the area vocational schools, neither of which enter into a fee for service contract with the Department. These reductions for the current fiscal year are to be made in the same proportions that 'new' money was allocated in the FY2008-2009 Long Bill. Attachment 1 shows the distribution of these reductions. Financial aid was held harmless for this fiscal year to honor existing institutional commitments to students.

The proposal also takes the existing FY2008-2009 Higher Education Maintenance and Reserve fund balance and supplements it with additional dollars; these funds would then be transferred to the General Fund to assist with the shortfall over a three-year period. In September, the Governor delayed spending on capital projects totaling \$50.3 million; the proposal transfers these funds to the Higher Education Maintenance and Reserve Fund. Another \$43.4 million freed by additional capital construction delays will also be transferred to the Higher Education Maintenance and Reserve Fund. Monies in this fund will allow for transfers from the Higher Education Maintenance and Reserve Fund to the General Fund in F 2008-2009, FY2009-2010 and FY2010-2011 to ease the projected shortfall's impact on higher education (expected total for three years: \$141.6 million).

The budget balancing plan proposals for FY2009-2010 total \$1,026.7 million to address the projected General Fund shortfall, including \$823.1 million in General Fund expenditure reductions and \$264.1 in transfers and diversions. (This total *includes* the \$631.9 million already proposed for FY2008-09.) The plan also includes a \$3.5 million increase to the General Fund statutory reserve to maintain a 2.0 percent General Fund reserve.

Proposed reductions to governing boards of \$52.5 million are to be made in the same proportions that 'new' money was allocated in the FY2008-2009 Long Bill; that is, the institutions' percentage of growth in General Fund from the FY2007-2008 to FY2008-2009 is reversed to determine the share of the FY2009-2010 reduction. The Department's request budget for FY2009-2010 is withdrawn (including the increase in the amount of the stipend) with the exception of the following:

- \$120,000 due to the Colorado Christian University students
- \$150,000 for the Colorado National guard Tuition Assistance Program for increased National Guard population eligible for tuition assistance
- \$1.3 million to meet the obligation to fund Fort Lewis College native American students

Finally, proposed targeted cuts to higher education include the following:

- \$1.5 million reduction in merit-based financial aid, eliminating the program
- \$1.6 million reduction in the Academic Competitiveness Grant, eliminating the program
- \$5.9 million reduction in need based financial aid for graduate students, eliminating the program

Attachment 2 shows the FY2009-2010 reductions and compares the general fund base to the FY 2007-2008 base; note the State will be very close to the FY 2008 base funding after reductions are made.

The Governor's budget balancing proposal includes implementing five statewide furlough days in FY 2009-2010. Institutions of higher education were not included in the dollar savings generated by these furloughs, and it remains to be determined if or how the furloughs will affect institutions.