

**TOPIC: BUDGET UPDATE**

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**I. SUMMARY**

The annual Long Appropriations Bill (SB09-259) was delivered to the Governor on Friday, April 24, 2009. It represents the culmination of a budget process that began last July. In many respects, the FY 2009-10 higher education budget represents a best case scenario, given the current economic downturn and the repeated reliance in prior recessions on cuts in state funding to higher education as the primary means to balance the state budget.

The Long Bill reduces state funding for the governing boards, local district colleges and the area vocational schools by approximately \$150 million General Fund – that is, to FY 2005-06 levels. This is the maximum cut allowed under the maintenance of effort section of the American Recovery and Reinvestment Act of 2009 (ARRA). The Governor has determined to use Colorado’s share of State Fiscal Stabilization Funds (SFSF) under the ARRA to offset the cuts and restore funding for higher ed in FY 2008-09, FY 2009-10 and FY 2010-11 to the FY 2008-09 state funding levels. With the anticipated federal funding, higher education institutions will effectively be held harmless these three years. However, in FY 2011-12 when the Federal dollars are no longer available, higher education institutions will see a substantial impact. The magnitude of the impact depends on how state revenues recover from the economic downturn.

In FY 2009-10, funding for need-based and work-based financial aid is also maintained at FY 2008-09 levels. The only reductions to financial aid are the elimination of the \$1.5 million merit-based aid allocation and \$1.6 million to the Academic Competitiveness Grant allocation. Merit aid had already been cut significantly from a high of \$14.8 million in FY 2002-03 to the \$1.5 million amount. These two cuts to existing financial aid programs will not be backfilled by the SFSF, as financial aid is not an allowable expenditure for those funds.

The footnote on tuition policy approved by the Joint Budget Committee (Footnote 18) was vetoed by the Governor on May 1. The footnote would have allowed the governing boards to increase tuition rates above 9%, and the Governor argued, among other points, that “increasing tuition above this 9% level has the potential to violate the provisions in the American Recovery and Reinvestment Act of 2009 (“ARRA”), Section XIV, which provides that recipients of these funds are instructed to “mitigate tuition increases.”

The Long Bill is balanced to the Legislative Council’s March 20<sup>th</sup> revenue forecast. The June 20<sup>th</sup> revenue forecast may necessitate further budget action and additional cuts if it projects a greater revenue shortfall than the shortfall projected in March.

**II. BACKGROUND**

At the April Commission meeting, staff presented the budget shortfall as then projected and its anticipated FY 2009-10 budgetary impact on the governing boards, local district colleges, and the area vocational schools. A series of cuts to higher education added up to \$452 million General Fund, or about 65 percent from the original FY 2008-09 appropriation of about \$706 million General Fund. All but one of the cuts was to be backfilled through either the Federal stimulus funds or through the ‘surplus’ moneys reportedly held by Pinnacol Assurance.

Even with the Pinnacol transfer, cuts to higher education would have reduced state funding below the FY 2005-06 level, thereby violating the maintenance of effort clause of the ARRA. Since the last Commission meeting, the legislature adopted a revised budget balancing plan which cuts higher education funding by \$150 million in both FY 2008-09 and FY 2009-10 and fully backfills these cut through the Federal stimulus funds. Although not included in the Long Bill, this plan presumes the \$150 million cut and corresponding Federal backfill in FY 2010-11.

**III. STAFF ANALYSIS**

**State Funding**

The following chart shows the adjusted FY 2008-09 and FY 2009-10 funding by governing board along with each governing board’s share of the Federal stimulus funds. Note, the impact of SB09-04—the merger of San Juan Basin Area Vocational School and Pueblo Community College—will adjust figures between the Community College System and Area Vocational Schools in FY 2009-10, but total figures will remain the same.

| State and Federal Funding for Colorado Public Institutions of Higher Education |                                   |  |  |  |                                  |  |                                  |
|--|-----------------------------------|--|--|--|----------------------------------|--|----------------------------------|
| Institutions of Higher Education   | Original FY 2008-09 General Fund* | FY 2005-06                                     |  | FY 2008-09                                     |                                  | FY 2009-10                                     |                                  |
|  |                                   | General Fund from the College Opportunity Fund | General Fund from the College Opportunity Fund | General Fund from the College Opportunity Fund | State Fiscal Stabilization Funds | General Fund from the College Opportunity Fund | State Fiscal Stabilization Funds |
| Adams State College  | \$ 14,608,449                     | \$ 12,149,322                                  | \$ 12,149,322                                  | \$ 12,149,322                                  | \$ 2,459,127                     | \$ 12,149,322                                  | \$ 2,459,127                     |
| Mesa State College   | \$ 24,005,607                     | \$ 19,888,392                                  | \$ 19,888,392                                  | \$ 19,888,392                                  | \$ 4,117,215                     | \$ 19,888,392                                  | \$ 4,117,215                     |
| Metropolitan State College of Denver   | \$ 49,713,412                     | \$ 39,778,568                                  | \$ 39,778,568                                  | \$ 39,778,568                                  | \$ 9,934,844                     | \$ 39,778,568                                  | \$ 9,934,844                     |
| Western State College  | \$ 12,173,017                     | \$ 9,892,147                                   | \$ 9,892,147                                   | \$ 9,892,147                                   | \$ 2,280,870                     | \$ 9,892,147                                   | \$ 2,280,870                     |
| Colorado State University System   | \$ 146,891,512                    | \$ 113,620,028                                 | \$ 113,620,028                                 | \$ 113,620,028                                 | \$ 33,271,484                    | \$ 113,620,028                                 | \$ 33,271,484                    |
| Fort Lewis College   | \$ 12,736,330                     | \$ 8,757,822                                   | \$ 8,757,822                                   | \$ 8,757,822                                   | \$ 3,978,508                     | \$ 8,757,822                                   | \$ 3,978,508                     |
| University of Colorado System  | \$ 209,099,449                    | \$ 159,103,982                                 | \$ 159,103,982                                 | \$ 159,103,982                                 | \$ 49,995,467                    | \$ 159,103,982                                 | \$ 49,995,467                    |
| Colorado School of Mines   | \$ 23,237,386                     | \$ 18,793,625                                  | \$ 18,793,625                                  | \$ 18,793,625                                  | \$ 4,443,761                     | \$ 18,793,625                                  | \$ 4,443,761                     |
| University of Northern Colorado  | \$ 44,086,311                     | \$ 35,176,878                                  | \$ 35,176,878                                  | \$ 35,176,878                                  | \$ 8,909,433                     | \$ 35,176,878                                  | \$ 8,909,433                     |
| Community College System   | \$ 142,320,783                    | \$ 117,020,778                                 | \$ 117,020,778                                 | \$ 117,020,778                                 | \$ 25,300,005                    | \$ 117,020,778                                 | \$ 25,300,005                    |
| Local District Junior Colleges   | \$ 15,890,257                     | \$ 12,601,934                                  | \$ 12,601,934                                  | \$ 12,601,934                                  | \$ 3,288,323                     | \$ 12,601,934                                  | \$ 3,288,323                     |
| Area Vocational Schools  | \$ 11,202,546                     | \$ 8,505,528                                   | \$ 8,505,528                                   | \$ 8,505,528                                   | \$ 2,697,018                     | \$ 8,505,528                                   | \$ 2,697,018                     |
| Sub-totals by General Fund and State Fiscal Stabilization Funds                | \$ 705,965,059                    | \$ 555,289,004                                 | \$ 555,289,004                                 | \$ 555,289,004                                 | \$ 150,676,055                   | \$ 555,289,004                                 | \$ 150,676,055                   |
| <b>TOTAL by Fiscal Year</b>  |                                   | <b>\$555,289,004</b>                           | <b>\$555,289,004</b>                           | <b>\$705,965,059</b>                           |                                  | <b>\$705,965,059</b>                           |                                  |

Because the Federal stimulus funds are anticipated to be distributed to the governing boards, local district colleges and area vocational schools as Federal grants, and due to the \$150 million

General Fund reduction, it was necessary to reduce the College Opportunity Fund (COF) stipend from \$2,760 per student FTE (30 credit hours) to \$2,040 per student FTE in both FY 2008-09 and FY 2009-10. Doing so enables each governing board to maintain a reasonable fee for service contract in FY 2009-10, a prerequisite to fully participating in the state's Intercept Act. The Intercept Act allows governing boards to bond using the state's credit rating. The state essentially guarantees the bond and can intercept state funds allocated to a governing board's fee for service contract in the event the governing board is unable to make the bond payment. The following chart shows the split between COF stipends and the fee for service contract for each governing board in FY 2009-10.

| FY09-10 COF Stipend / Fee For Service Contract Split by Governing Board |                            |                    |                          |                    |
|---|----------------------------|--------------------|--------------------------|--------------------|
| Governing Board   | Projected COF-eligible FTE | COF Stipend        | Fee For Service Contract | Total              |
| Adams State College   | 1,302                      | 2,656,080          | 9,493,242                | 12,149,322         |
| Mesa State College  | 4,419                      | 9,014,760          | 10,873,632               | 19,888,392         |
| Metropolitan State College of Denver                                    | 16,950                     | 34,578,000         | 5,200,568                | 39,778,568         |
| Western State College   | 1,432                      | 2,921,280          | 6,970,867                | 9,892,147          |
| Colorado State University System  | 20,355                     | 41,524,200         | 72,095,828               | 113,620,028        |
| Fort Lewis College  | 2,307                      | 4,706,280          | 4,051,542                | 8,757,822          |
| University of Colorado System   | 28,947                     | 59,051,880         | 100,052,102              | 159,103,982        |
| Colorado School of Mines  | 2,709                      | 5,526,360          | 13,267,265               | 18,793,625         |
| University of Northern Colorado   | 7,723                      | 15,754,920         | 19,421,958               | 35,176,878         |
| Community College System  | 46,641                     | 95,147,640         | 21,873,138               | 117,020,778        |
| <b>Total</b>  | <b>132,785</b>             | <b>270,881,400</b> | <b>263,300,142</b>       | <b>534,181,542</b> |

### Tuition Policy

Footnote 18 in the long bill, which the Governor vetoed on May 1, would have established a limit on the governing boards' ability to set tuition policy. The text of the footnote follows and would have allowed significantly more flexibility than has been granted in prior years:

*Department of Higher Education, Governing Boards, Trustees of Adams State College; Trustees of Mesa State College; Trustees of Metropolitan State College of Denver; Trustees of Western State College; Board of Governors of the Colorado State University System; Trustees of Fort Lewis College; Regents of the University of Colorado; Trustees of the Colorado School of Mines; University of Northern Colorado; State Board for Community Colleges and Occupational Education State System Community Colleges – It is the intent of the General Assembly that any effective increase in resident undergraduate tuition rate not exceed 9.0 percent per student or 9.0 percent per credit hour. In the event that reductions in funding from the stipends and fee-for-service contracts with higher education institutions exceed 9.0 percent of the appropriation for stipends and fee-for-service contracts in H.B. 08-1375, the institutions of higher education shall be allowed to increase tuition above the 9.0 percent limit up to the amount necessary to backfill the loss of funds, subject to the*

*approval of the institution's respective governing board. It is the intent of the General Assembly that any increases in spending authority necessary to cover the backfill of lost stipends and fee-for-service contracts will be addressed through a supplemental in the 2010 session. It is the intent of the General Assembly that the institutions may increase all graduate and nonresident tuition rates to reflect market conditions and that any additional spending authority necessary to cover graduate and nonresident tuition rate increase be addressed through a supplemental appropriation during the 2010 session.*

The footnote would have allowed governing boards to raise tuition revenue by the amount necessary to cover any cut greater than nine percent of their FY 2008-09 funding level (COF stipends and fee for service contracts). The footnote did not specify that the Federal stimulus funds count as an offset to the General Fund cut.

The Governor vetoed the footnote citing three key reasons: 1) the footnote did not account for the federal State Fiscal Stabilization Funds, which will effectively maintain institutions at their FY 2008-09 funding levels; 2) increasing tuition above nine percent would have potentially violated the ARRA requirements that the federal funds mitigate tuition increases; and 3) the possibility of substantial tuition increases above nine percent raised concerns regarding affordability and access.

With the Governor's veto of Footnote 18, there is no official limit on the governing board's ability to increase tuition rates. However, governing boards can be held to their tuition spending authority contained in the Long Bill. The Governor noted in his veto message, "Therefore, I request the Governing Boards maintain a 9% per student and per credit hour cap on resident undergraduate tuition growth, as the tuition cash funds spending authority identified in Senate Bill 09-259 has been calculated to this level."