TOPIC: **DRAFT FY 2011-12 GENERAL FUND ALLOCATION MODEL**

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I. SUMMARY

At the last CCHE meeting, staff presented the narrative of a proposed "$500 million bifurcated allocation" model that would be dependent on the level of General Fund available for Higher Education in FY 2011-12. The following discussion and attached documents provide additional information about how this model would operate at varying levels of General Fund and address allocation questions raised by the Commission raised at the last meeting.

II. BACKGROUND

When facing relatively modest cuts in state support it is common to absorb those cuts by reducing General Fund based on each Governing Board's share of overall state support (a proportionate GF cut). However, such an approach may not be viable if Colorado Higher Education is facing extremely large reductions such as we anticipate for FY 2011-12. The $500 million bifurcated allocation proposal presented at the last CCHE meeting uses a "total revenue" approach if state support falls below $500 million and a blended "3-part" approach if total revenue is at or above $500 million. The "3-part" approach blends the traditional General Fund reduction and the "total revenue" approach with an overlay factor to consider recent enrollment growth.

A reduction based on total revenue is not a new or unfamiliar concept for Higher Education. It was utilized as part of a reduction made in the recession earlier this decade. When a Governing Board's total revenue (General Fund plus tuition revenue) is considered, Governing Boards that rely on a greater share of tuition funding incur a greater share of the reduction. A traditional, proportionate General Fund reduction reverses this and results in a greater relative share of the reduction to be borne by Governing Boards that rely on a greater portion of state funding.

III. STAFF ANALYSIS

There are three primary reasons for recommending utilizing either a blended or pure total revenue approach depending on the amount of state revenue available:

1. **An expectation of very low state support in FY 2011-12:** With state revenues recovering very slowly and the loss of federal funds a very low level of state support is anticipated for FY 2011-12. Using a total revenue allocation approach may be necessary to meet the principle of sustaining core operations across the higher education system.

2. **Senate Bill 03 tuition and operating flexibility:** Senate Bill 03 was enacted partly because insufficient state funding in FY 2011-12 is anticipated, and because of the need to increase Governing Boards ability to offset state funding reductions as rapidly as possible. A total revenue approach recognizes the need to rapidly utilize the additional flexibility provided by SB-03. It also acknowledges the fact that smaller institutions may have less flexibility to raise tuition and raise significantly less funding even from large tuition increases.

3. **Planning can move forward:** If we had reasonable certainty about the level of General Fund available for in FY 2011-12 it would be relatively easy to gain consensus on a reasonable model, begin implementing SB-03 and planning could begin at the Governing Boards. The fact is that there is no consensus around what funding might be for FY 2011-12 despite the best efforts of the capable economists and budget personnel in the Capitol. The uncertainty will not diminish in the coming months. The bifurcated approach removes some of the uncertainty by letting Governing Boards know what allocation will be utilized in a (1) very dire and (2) somewhat less dire revenue environment so that planning can begin to move forward.

Attachment #1 (spreadsheet) description:

In the attached spreadsheet, columns #1 and #2 on the left are provided for reference. Column #1 is the FY 2005-06 allocation of $555.2 million which is the minimum amount we can provide under the maintenance of effort requirements of the Recovery Act and is similar to optimistic revenue estimates for FY 2011-12. Column #2 is the amount available in FY 2008-09 which is the most recent “high water mark” for the system and totals almost $705.9 million (combined with the backfill funding provided through the Recovery Act).

The next three shaded columns illustrate what happens under the $500M bifurcated allocation model if the FY 2011-12 General Fund mark is below $500 million. In this case the revenue mark is hypothetically set at $450 million for the system to share so an unblended “total revenue” approach is utilized. The result is significantly lower state funding for institutions with a large relative portion of tuition revenue and a lower percentage reduction for institutions with a greater relative share of state support. Note in columns #4 and #5 that the percent reduction across total funds is the same minus 9.2 percent but the reduction varies significantly across the General Fund.

Columns #6, #7 and #8 shows the same hypothetical General Fund mark of $450 million but this time distributed based on the traditional, proportionate across-the-board General Fund reduction. Columns #7 and #8 show that while the percent General Fund reduction of 30.2 percent is the same, the reduction across Governing Boards total revenues (including tuition) varies significantly. It also demonstrates that when system-wide reductions become very large they cannot be borne based upon state funding alone by institutions that depend on a relatively greater share of state support.

The lower portion of the spreadsheet assumes better state revenues and sets the higher education General Fund mark at a hypothetical $550 million. Under the $500M bifurcated allocation model in the shaded column #3, the 3-part allocation would be used because there would be enough funding to allow a traditional General Fund allocation and enrollment factor to be combined with the total revenue approach.

Finally, column #4 answers a question that came up at the last CCHE meeting asking what the impact is if a straight General Fund proportionate reduction is combined with a factor for enrollment growth. This has been run assuming "good" revenues at $550 million because utilizing a straight General Fund reduction and an enrollment factor at $450 million will likely result in a significant impact to core operations at institutions relying on a greater relative share of state support.

6/17/10 CCHE Meeting Questions

1. **What determines "total revenue" and could a different definition be used?** Under this model, total revenue is defined simply as revenue from tuition and state support (including ARRA backfill dollars). Other revenues such as gaming funding, tobacco settlement proceeds and local district property tax revenues could be considered, however they receive protection as supplemental funds. Considering additional revenue sources will also open discussions about the unique benefits and harms for individual governing boards and could lessen the "system-wide" approach of only considering tuition and state support.

2. **What happens if a different base year is utilized?** Staff used FY 2010-11 as the base year to capture the most recent data available. Using a different base year does not have a significant impact on the model. Using total revenue versus a proportionate General Fund reduction has a significant impact because it applies to a large portion of system-wide funding while a change in the base year only applies to the increment of change from one year to another – a much smaller amount. ***See Attachment #2.***

3. **How does this model meet the principles of allocation agreed to by the Commission?** See Attachment #3.

4. **The enrollment adjustment under the "3-part model" is set arbitrarily at $10 million. Is there an objective factor that can be utilized to address recent enrollment increases?** Staff is currently working on alternative methods. Keep in mind

that if state revenues drive large reductions to higher education, utilizing allocation factors like enrollment becomes more difficult as fewer dollars are available to cover the costs of core operations.

5. **What is the impact of the proposed allocation model on individual institutions under the direction of a single Governing Board?** Staff does not have data to accurately project what the impact will be on institutions within a system directed by a single Governing Board. Historical expenditure data could be utilized to speculate as to impacts but ultimately the authority to manage the system allocation lies with the Governing Board that oversees that system.

6. **Is there a way to address needs at "high cost programs" (Anschutz Medical Campus and the CSU Vet-Med program)?** If state revenues are adequate, an amount could potentially be set aside "off-the-top" with the intent of mitigating impacts on "high cost programs" such as the Anschutz Medical Campus. Similar to the discussion on factoring for enrollment, the ability to assist the high cost programs largely depends on available revenues and gaining consensus on the amount of a reasonable set-aside. At the revenue levels projected for FY 2011-12, it is unlikely that that entire amount historically allocated for the high cost programs could be set aside without a significant impact on the operations of other state funded higher education programs.