

TOPIC: PROPOSED FY 2012-13 GENERAL FUND ALLOCATION

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I. SUMMARY

In late September, the Governor's budget office (OSPB) shared the FY 2012-13 General Fund budget mark for higher education with the department, thus allowing department staff to prepare an annual budget request for the Colorado General Assembly. The budget mark from OSPB included a recommendation to reduce General Fund operating revenue for governing board operations by \$29.3 million from the FY 2011-12 level of \$519 million (reduced to \$489.7 million for FY 2012-13). This represents a 5.7 percent reduction from FY 2011-12 and a 30.6 percent reduction from the most recent funding "high point" of \$706 million last attained in 2009-10 with assistance of the State Fiscal Stabilization Funds (SFSF), which were allocated to Colorado via the American Reinvestment and Recovery Act (ARRA).

In order to prepare the budget request and meet budget office deadlines, it was necessary for staff to quickly develop and, if possible, reach consensus on an allocation model among representatives of the state's postsecondary Governing Boards. Over the past few weeks, representatives of the postsecondary governing boards and institutional CFOs reached an agreement for apportioning the proposed reduction. The purpose of this agenda item is to request that the Commission approve the FY 2012-13 General Fund allocation model (Attachment "A") that was agreed to by the representatives of the state's postsecondary governing boards.

II. BACKGROUND

Soon after the OSPB provided a proposed FY 2012-13 General Fund budget mark of \$489.7 million for higher education operations, department staff discussed the reduction with the CEOs along with other proposed reductions, which include an approximately \$30 million reduction to need-based grant and work study programs. In light of the time needed to prepare the Governor's budget for submission to the Joint Budget Committee on November 1st, it was necessary to have the governing boards meet quickly to discuss how to apportion the proposed reduction. Staff prepared models with updated data and participated in meetings and discussions with the campus CFOs.

On October 11th, the CFOs met to discuss and evaluate allocation options. Though significant, the amount of the proposed reduction to general operating revenues, when applied to the FY 2011-12 "three-part" allocation model, did not create significant swings in revenue allocations among the institutions. This, in addition to an appreciation of the need to act quickly expedited the discussions to a productive conclusion, in spite of the difficult budget conditions. In the end, the CFOs agreed to adhere to the existing FY 2011-12 model while reducing the enrollment adjustment as described below. Finally, the attached letter to the Commission on Higher

Education was prepared by the governing boards. It indicates their agreement to the enclosed allocation method at the proposed level of state General Fund general operating support.

III. STAFF ANALYSIS

The FY 2012-13 funding model is a “three part model,” similar to the one used in FY 2011-12, that allocates half of the total reduction based upon a proportionate across-the-board General Fund reduction and half based on a Total Revenues across-the-board reduction (where Total Revenues is equal to FY 2011-12 state support plus appropriated tuition revenue). The third part of the model represents an additional \$7.5 million set aside that is later reallocated to governing boards based upon enrollment increases experienced by the institutions over the past five years.

The FY 2012-13 “three part” allocation model operates in exactly the same way as that from FY2011-12, except that enrollment and appropriated tuition data has been updated. The primary change to the model is that the enrollment factor has been reduced from \$10 million to \$7.5 million (see Attachment “A”). As described in the letter, it was agreed that if additional revenues are made available to higher education those funds would first be used to restore the enrollment factor back to \$10 million. If there are relatively modest additional reductions required in the future, we will work to preserve the enrollment factor at \$7.5 million. If changes in state revenue levels require substantial additional reductions, it would require the governing boards to work together with the department and CCHE to determine if an altogether different allocation method is necessary.

As stated in the letter, while the governing boards and CEOs believe it is beneficial to remain unified on a General Fund allocation, they also emphasize that this agreement should not be mistaken as satisfaction in the amount of state funding dedicated to higher education in Colorado. The governing boards appreciate the difficulty in balancing state programs and services to available revenues and that the recommended reduction could have been more severe. Nevertheless, the attached letter emphasizes that such reductions cannot be sustained without impacting cost, access and quality at Colorado’s public colleges and universities.

In a recent message to the CEOs, Lt. Governor Garcia expressed his appreciation for the continued spirit of partnership and cooperation among the governing boards in this very difficult fiscal environment. He expressed his hope that this cooperative spirit can be maintained as CCHE faces the challenge of allocating a smaller amount of financial aid and work study funding for FY 2012-13 during a time of increasing enrollment. In the meantime, the Governor’s Office and Department appreciate the genuine cooperation and integrity demonstrated by representatives of the postsecondary governing boards in determining a viable General Fund allocation for the upcoming fiscal year.

III. STAFF RECOMMENDATIONS

Staff recommends approving the attached FY 2012-13 General Fund allocation model.

STATUTORY AUTHORITY

C.R.S. 23-1-105(8) The funding recommendations made by the commission for state-supported institutions of higher education and by the executive director for the divisions of the department of higher education shall be made to the governor and to the general assembly as part of the budget request for the department of higher education and shall be submitted in accordance with the budget procedures of part 3 of article 37 of title 24, C.R.S., and in conformance with section 24-75-201.1 C.R.S.