

**TOPIC: APPROVAL OF FISCAL YEAR 2014-15 GENERAL FUND BUDGET REQUEST**

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**I. SUMMARY**

About two weeks ago, the Governor's budget office (OSPB) shared with the Department the total FY 2014-15 budget proposal for higher education to be included with the rest of the state budget request to the Joint Budget Committee and the General Assembly. The Governor is requesting a total increase of \$100 million in General Fund for public higher education to be comprised of \$40 million for state funded financial aid and \$60 million for operations at the institutions split proportionately. In light of an 11 percent across-the-board increase in operating funding, the Governor is calling for a resident tuition cap of 6 percent with the intention that this investment be used to control tuition increases as much as possible. The request for \$40 million in additional state financial aid funding is comprised of \$30 million in need-based grants, \$5 million to restore the merit aid program and \$5 million in additional work study funding.

The FY 2014-15 request, operating allocation and funding history are illustrated in "*Attachment A*" and staff is recommending that the Commission take action to approve the Governor's FY 2014-15 higher education funding proposal in its entirety.

**II. BACKGROUND**

As Governing Boards set tuition last spring, it became apparent that the General Fund increase provided for FY 2013-14 had a material impact in mitigating tuition increases for several Colorado institutions. The recovery in state funding had a direct connection to institution's ability to hold tuition increases below planned levels. As the Governor's Office developed statewide priorities for the upcoming fiscal year, OSPB clearly indicated that Colorado's public colleges and universities needed to actively work to hold down costs. At the same time, the Governor expressed a continued desire to increase access for all Colorado students and especially underserved populations as consistent with the four goals of the CCHE Master Plan. The Lieutenant Governor and department staff worked closely with the Governor's Office on various alternatives to address these issues, reviewing, researching and narrowing options as OSPB weighed statewide needs against available funding. Very recently the department received OSPB's FY 2014-15 budget recommendation which proposed historic increases in operating and financial aid for the higher education system combined with a proposed resident tuition cap of 6 percent over last year. Based on available data and the size of the proposed operating increase the proposed tuition increase limit appeared reasonable and workable. The October 24<sup>th</sup> CEO meeting validated this belief as the FY 2014-15 budget proposal and tuition cap concept was enthusiastically embraced by the institution presidents. Over the past week, department staff completed preparation on the necessary budget schedules and documentation, receiving final OSPB approval on October 30, 2013.

### **III. STAFF ANALYSIS**

#### **Operating:**

The Governor's request provides an historic increase of \$60 million in operating funding for public institutions, doubling the increase proposed one year ago and bringing the total operating level to \$604 million – the highest level in four years (since FY 2010-11). The Governor's Office recommended and the department agreed to endorse an across-the-board allocation of 11 percent. As a reminder, last year's allocation model combined a proportional restoration of budget cuts taken in prior years and a proportional restoration of average funding per resident student at FY 2009-09 funding levels. In other words, an 11 percent increase per governing board will reinforce the balancing elements of last year's allocation model.

As part of the FY 2014-15 proposal, the Governor requested that Governing Boards keep tuition increases as low as possible and has directed a tuition increase cap of no more than a 6 percent tuition for Colorado resident students. Based on data and information gathered by the department, and because of the substantial operating increase proposed the tuition cap is considered to be attainable for all governing boards and in many cases we expect governing boards to set tuition increases well below this level later this spring. Finally, as part of the proposal, the Governor's Office has asked for institutions to better justify and explain cost increases and the request carries an expectation that institutions will do more to keep costs down. The operating increase will result in an increase in the College Opportunity Fund (COF) stipend to \$66 per credit hour or \$1,980 for 30 credit hours.

The proposed operating increase directly supports the 4<sup>th</sup> goal of the CCHE master plan by increasing state operating funding by 11 percent over the prior year level. It indirectly supports master plan goals #1 through #3 goals by aiding institution's ability to help more students complete more rapidly through enhanced student support services.

#### **Financial Aid:**

The Governor's proposal includes a request for \$40 million in additional funding for student financial aid which would be the largest increase in state financial aid (42%) since the program's inception. The proposal is broken down into three components: \$30 million for need-based aid, \$5 million to restore Colorado's merit-based aid program and \$5 million in additional work study funding. The bulk of the financial aid increase is directed at need based financial aid to support the CCHE's newly adopted completion allocation model where additional aid is provided for students as an incentive for more rapid progress toward completing a degree or certificate.

The Governor's proposal also restores the merit aid program, which was eliminated due to budget cuts in FY 2009-10, at a \$5 million level – about one third of the program's highest funding level. Along with the \$5 million proposed increase in work study funding, this part of the proposed financial aid increase is intended to help address the needs of Colorado's middle income students who fall just outside of need-based income eligibility levels. Taken together,

the financial aid increase directly supports CCHE goal #2 and #3 by allowing institutions to leverage institutional aid to address attainment gaps among students from underserved communities. It indirectly supports goal #1 and #4 by increasing state financial aid funding to be allocated through a methodology that creates an incentive for more rapid degree completion.

#### **IV. STAFF RECOMMENDATIONS**

**Staff recommends approval of The Governor's proposed FY 2014-15 General Fund operating request using a proportionate 11 percent increase allocation by governing board and an increase in General Fund Student Financial Aid funding to be allocated among programs as detailed above.**

#### **STATUTORY AUTHORITY**

Section 23-1-105 (8), C.R.S. (2012)

*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.*