

TOPIC: FISCAL YEAR 2015-16 BUDGET UPDATE

PREPARED BY: TONYA COVARRUBIAS, LEAD FINANCE ANALYST

I. SUMMARY

On November 3rd, the Governor's budget office (OSPB) sent the state budget request to the Joint Budget Committee (JBC) and the General Assembly, including an increase for public higher education. This request is \$107.1 million General Fund (14.1 percent) higher than the FY 2014-15 appropriation. The primary components of this request are described below:

- **\$75.6 million General Fund for Public Institutions of Higher Education** (Attachment A). The Department of Higher Education requests a total of \$75.6 million General Fund in keeping with the provisions of SB14-001 and HB14-1319. This request was built based on two components: (1) \$60.6 million (10%) General Fund for continuation of the 6.0 percent or lower tuition cap and (2) a five-year implementation "guard-rail"/performance transition sum estimated at \$15.0 million to implement HB14-1319. The HB14-1319 performance funding model is still being developed as of this date; as such, these proportions are currently estimates and may change within this \$75.6 million General Fund request for the January 15th allocation of the request.

OSPB has also requested a waiver from the statutory requirement for the financial aid calibration found in Section 23-3.3-103, C.R.S.

- **\$30.0 million General Fund for the College Opportunity Scholarship Initiative** (Attachment B). The Colorado Department of Higher Education requests \$30.0 million General Fund Exempt for transfer to the Colorado Opportunity Scholarship Initiative in FY 2015-16. This sum will increase the State's seed investment which is intended to incentivize contributions from the non-profit and private community and build up the Scholarship corpus in order to provide tuition assistance to students.
- **\$0.2 million Reappropriated Funds to maintain research and data functions** (Attachment C). The Department of Higher Education requests \$190,268 reappropriated funds (0.0 FTE) to ensure sustainable funding for portions of four data and research positions' salary and benefits. These critical Department positions have been funded with grants that are not continuing, the loss of which threatens the availability of essential research and data which support critical State initiatives. The source of the reappropriated funds is department indirect costs.
- **\$0.1 million for Colorado School of Mines – Colorado Geological Survey** (Attachment D). The Colorado Geological Survey at the Colorado School of Mines requests \$105,494 General Fund and 1.0 FTE to improve assistance to local governments and agencies on geologic hazard maps, providing post-disaster response and recovery technical assistance and the provision of hazard planning technical assistance. The

Colorado Geological Survey has the responsibility of creating and disseminating geologic hazard information about Colorado to its citizens, schools, private sector, and government.

- **\$1.1 million General Fund for the Fort Lewis College Native American Tuition Waiver** (Attachment E). The Department requests an increase of \$1,169,115 General Fund to fund the Fort Lewis College Native American Tuition Waiver in FY 2015-16. Colorado is required via Federal treaty and state law to provide full tuition assistance to any qualified Native American student who attends Fort Lewis College.

In addition to the operating request, the Governor’s request includes the following for capital:

- **\$83.2 million in prioritized capital construction projects** (Attachment F and G). The Governor’s budget requests approximately \$83.2 million for six Higher Education capital construction projects: \$76.6 million for five continuation projects and \$6.6 million for one additional capital renewal project. \$10.6 million is recommended for 18 Higher Education controlled maintenance projects.

Please note: The rest of this agenda item provides the background and staff analysis only for the first budget request of \$75.6 million for public institutions of higher education.

The FY 2015-16 operating request for public colleges and universities is included as “Attachment A” and is discussed further below. Due to the aggressive timeline set forth in HB 14-1319, the department has until January 15th to submit a budget request with allocations to the individual institutions of higher education to the JBC. Thus, the November 1 request represents a total rolled-up budget request which will be fully allocated amongst the institutions in January pursuant to HB14-1319.

II. BACKGROUND

S.B. 14-001 provided \$100 million for operations of public institutions of higher education and placed a six (6) percent cap on resident tuition for FY 2014-15 and FY 2015-16. As Governing Boards set tuition last spring, it became apparent that the General Fund increase in FY 2014-15 had a material impact in limiting tuition increases. Indeed, many Colorado institutions kept their tuition increase well below the six (6) percent cap. The recovery in state funding had a direct connection to institutions’ ability to hold tuition increases below planned levels. As the Governor’s Office developed statewide priorities for the upcoming fiscal year, OSPB recognized that Colorado’s public colleges and universities ability to keep tuition below the six (6) percent cap was tied to continued recovery in state funding.

At the same time, the Governor recognizes that in addition to the funding level, the funding mechanism for Governing Board allocations is also governed by 2014 statutes – H.B. 14-1319 – which requires CCHE to create a performance funding model for the allocation of base and any additional funding in FY 2015-16. Due to several specific parameters contained in H.B. 14-1319 and its immediate implementation, the Department recognizes that there are scenarios where a minimal increase or flat level of General Fund operating support to the system could result in several Governing Boards receiving increases from the prior year and others receiving reductions from the prior year. While the legislation contains five year “guardrails” that act as a “stop-loss” provision to keep a governing board from losing or gaining more than five percent from the total state appropriations increase in a given year, it does not contain a “phase-in” period of time or a hold harmless provision that could serve to keep a governing board from losing funding in the first year. Because of the uncertainty around the results of the performance funding model, the Governor has proposed funding specifically for H.B. 14-1319 implementation guard-rail/performance transition.

III. STAFF ANALYSIS

Six (6) Percent Resident Tuition Cap:

With a six (6) percent cap on resident tuition for FY 2015-16 codified in law, the Governor has requested an increase in General Fund operating in FY 2015-16. The Governor’s request provides an increase of \$60.6 million in operating funding for public institutions, bringing the total operating level to \$665.8 million – the highest level in six years (since FY 2009-10). The Governor recognized that without an increase, the institutions may not have been able to meet the six percent resident tuition cap without impacting services to students or contributing to financial instability at some institutions. The timeline of the H.B. 14-1319 process has also made it impossible to know what the impact of the funding model will be by governing board or institution. Department staff worked with OSPB to estimate an amount of operating support needed to sustain a six percent resident tuition cap across all of the governing boards. The estimated \$60.5 million increase is based on the operational increase and resident tuition levels for FY 2014-15 (please see “Attachment A” for additional details).

The proposed operating increase directly supports the 4th goal of the CCHE master plan by increasing state operating funding by 10 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 though enhanced student support services.

H.B. 14-1319 Guard-rail/Performance Transition Five-Year Funding:

The Governor’s proposal includes a request for \$15 million in additional funding for five-years of H.B. 14-1319 Guard-rail/Performance Transition funding. As discussed above, the performance funding allocation model for institutions of higher education required by H.B. 14-1319 reallocates all base funding. The Governor recognizes that there are scenarios where a lower or flat level of General Fund operating support to the system in FY 2015-16 will result in

some governing boards seeing increases through the funding model while others will see reductions from the prior year. If governing boards lose funding under the HB 14-1319 model in the first year, it could jeopardize the continuation of services for their customer, the student, and the implementation of performance funding. In order for a governing board to increase performance, they need to provide effective and innovative student success services and academic services and programs. This takes resources in the form of both time and money. Reduced funding in the first year of implementation will hamper those governing boards' ability to increase performance in such areas as retention and graduation rates, especially for the most disadvantaged students. Additionally, one of the tenets of HB 14-1319 is predictability and institutions will need to plan for changes in state support over time so they can manage their revenue and expense mix accordingly.

Other states that have implemented performance funding have included a transitional period that holds institutions harmless. The Governor's request of \$15 million would allow CCHE to ensure the smoothest transition possible as the model is implemented within the ambitious timelines of HB14-1319.

Please note that the \$15 million for transition funding is currently an estimate and may change within this \$75.6 million General Fund request for the January 15th allocation of the request.

IV. STAFF RECOMMENDATIONS

Staff has no recommendation at this time. Action on the funding allocation model will be taken by the Commission at the December CCHE meeting.

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.

Section 23-18-307 (1) (b), C.R.S. (2014)

C.R.S. 23-18-307

(b) By January 15, 2015 the Department and the Commission shall submit an updated budget request that includes:

(I) a detailed description of the fee-for service contract role and mission funding factors and the performance funding metrics and the values assigned to each factor and metric; and

(II) the fee-for-service contract provisions of section 23-18-303 as applied to each institution, including details of the funding requested for each institution for each role and mission funding factor and each institution for each role and mission funding factor and each performance funding metric.

ATTACHMENT:

- Attachment A: R-01 — Operating Increase for Public Colleges and Universities
- Attachment B: R-02 — Colorado Opportunity Scholarship Initiative
- Attachment C: R-03 — Data and Research Personnel Shore-Up
- Attachment D: R-04 — Geologic Hazard Mitigation FTE – Colorado Geological Survey, Colorado School of Mines
- Attachment E: R-05 — Fort Lewis Native American Tuition Waiver
- Attachment F - OSPB Recommended Higher Education Capital Construction Projects
- Attachment G - OSPB Recommended Higher Education Controlled Maintenance Projects