COLORADO
Department of Higher Education

Priority: R-1
Operating Increase for Public Colleges and Universities
FY 2015-16 Change Request

Cost and FTE

- The Department of Higher Education requests a total of $75,588,527 General Fund for institutions of public higher education. This request is made in keeping with the provisions of SB14-001 (tuition cap) and HB14-1319 (higher education performance funding).

Current Program

- In FY 2014-15, resident tuition increases were capped at no more than 6.0 percent in SB14-001. The legislation also established the same tuition cap for FY 2015-16.
- HB14-1319 provides for a performance and outcomes funding model. It is possible that some potential funding scenarios could lower institutional funding below their 5 percent guard-rail/performance transition level established in the legislation.

Problem or Opportunity

- This FY 2015-16 request responds to two statutory directives added in the 2014 Session. First, the State must continue the resident tuition cap set in SB14-001 of no more than 6 percent in FY 2015-16. Second, the State must request funding in a manner consistent with HB14-1319.

Consequences of Problem

- If the increase in funding for public higher education institutions is not provided to allow the schools to limit resident tuition increases in FY 2015-16, the State may be out of compliance with SB14-001.
- Without some guard-rail/performance transition funding to ensure smooth implementation of HB14-1319, some institutions could face greater fiscal instability. This need will depend upon the outcome of the model.

Proposed Solution

- This request contains $60.6 million (10%) General Fund for estimated continuation of the 6.0 percent or lower tuition cap. It provides a five-year implementation guard-rail/performance transition funding estimated at $15.0 million to successfully implement HB14-1319.

Department Priority: R-1
Request Detail: Operating Increase for Public Colleges and Universities

Summary of Incremental Funding Change for FY 2015-16	Total Funds	General Fund
Six Percent Tuition Cap	$60,588,527	$60,588,527
HB 14-1319 Transitional Funding	$15,000,000	$15,000,000
Total Request	$75,588,527	$75,588,527

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 contains 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. As the HB14-1319 performance funding model is still being developed as of this date, these proportions are currently estimates and may change within this $75.6 million General Fund request for the January 15th allocation of the request.

Problem or Opportunity:

This FY 2015-16 request is governed by two statutory requirements, both of which were added in the 2014 Session. First, the State must continue the resident tuition cap set in SB14-001 of no more than 6.0 percent in FY 2015-16. Second, the State must request funding in a manner consistent with HB14-1319.

Six Percent Tuition Cap: $60.6 million

The Department requests an additional $60.6 million General Fund for operating increases for public institutions of higher education. This sum is calculated upon the FY 2015-16 continuing base budget of $605.9 million and calculates based on a 10.0 percent General Fund increase for public institutions of higher education. This FY 2015-16 request follows last year's resident tuition cap codified in SB14-001.

Last year, the Governor's request provided a historic $60 million or 11 percent increase for public institutions of higher education. Tied to the 11 percent operating increase, resident tuition increases were capped at no more than six percent for FY 2014-15 and FY 2015-16. The 11.0 percent General Fund increase provided last year was an "across-the-board" increase allowing for the same percentage of operating increase to be applied to each governing board. This provided a degree of predictability and facilitated planning at the governing board level.

In addition to the funding *level*, the funding *mechanism* is also governed by 2014 statutes. Pursuant to HB14-1319, the process of allocating the funding request in FY 2015-16 is governed by HB 14-1319:

> By November 1, 2014, the Department and the Commission shall submit a budget request that includes the total amount of funding requested for higher education for the 2015-16 state fiscal year and a draft of the factors and metrics, with their weights, that the Commission is considering pursuant to Section 23-18-306, C.R.S. but that does not include the specific allocation by governing board (Section 23-18-307 (2) (a), C.R.S.).

Further, by January 15, 2015, the Department and Commission are required to provide an updated budget request that *allocates funding* according to the funding factors, metrics, and formulas of the HB 14-1319 model by institution. 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.

Without an increase in General Fund operating in FY 2015-16, the institutions may not be able to meet the six percent resident tuition cap without impacting services to students or contributing to financial instability at some institutions. Because it is not possible to know what the impact of the HB 14-1319 funding model will be by governing board or institution the portion of the request associated with SB 14-001 compliance is estimated as the amount of operating support needed to sustain a six percent resident tuition cap across all of the governing boards based on resident tuition levels last year (shown in the table below):

Percent Change in Resident Tuition, FY 2013-14 to FY 2014-15
(Based on 30 Credit Hours)

Institution	Percent Change
University of Colorado – Boulder	3.3%
University of Colorado - Colorado Springs	3.2%
University of Colorado - Denver	3.5%
Colorado State University	5.0%
Colorado State University – Pueblo	6.0%
Fort Lewis College	6.0%
University of Northern Colorado	4.8%
Adams State University	5.9%
Colorado Mesa University	5.8%
Metropolitan State University of Denver	6.0%
Western State Colorado University	5.0%
Colorado School of Mines	2.7%
Aims Community College	0.0%
Colorado Mountain College	1.8%
Colorado Community College System	4.5%

Note: Calculation is based on tuition figures considered "Base Tuition Rates" (30 credit hours) and do not include tuition differentials, etc. Student fees are not included.

Applying an assumption of a tuition cap of six percent or less to the FY 2015-16 continuing base budget, the Department estimates that the revenue needed to sustain a resident tuition cap of six percent or less is estimated at a maximum of $60.6 million. This sum is derived based on a calculation of $58.3 million for the Governing Boards, $1.4 million for the Local District Junior Colleges, and $0.9 million for the Area Vocational Schools.

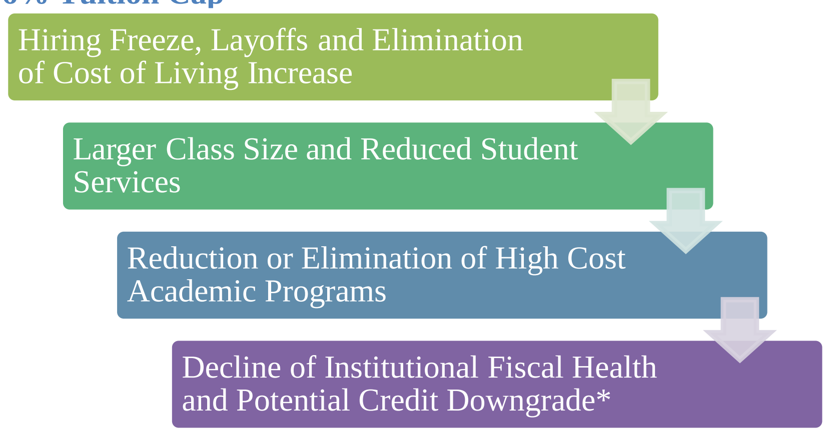
HB14-1319 Guard-rail/Performance Transition Five-Year Funding: $15.0 million

House Bill 14-1319 requires the Colorado Commission on Higher Education (CCHE) to develop a brand new funding formula to allocate state General Fund dollars among the governing boards of the state's public colleges and universities within specific defined parameters. The legislation has an aggressive timeframe for implementation (six months) and the HB 14-1319 funding model will apply to all "base" General Fund operating support.

Due to several of the specific parameters contained in HB 14-1319 and its immediate implementation, the Department 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 cuts from the prior year. While the legislation does contain 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 prior 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.

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. This takes resources in the form of both time and money.

Potential Impacts of a 5% General Fund Reduction with the 6% Tuition Cap



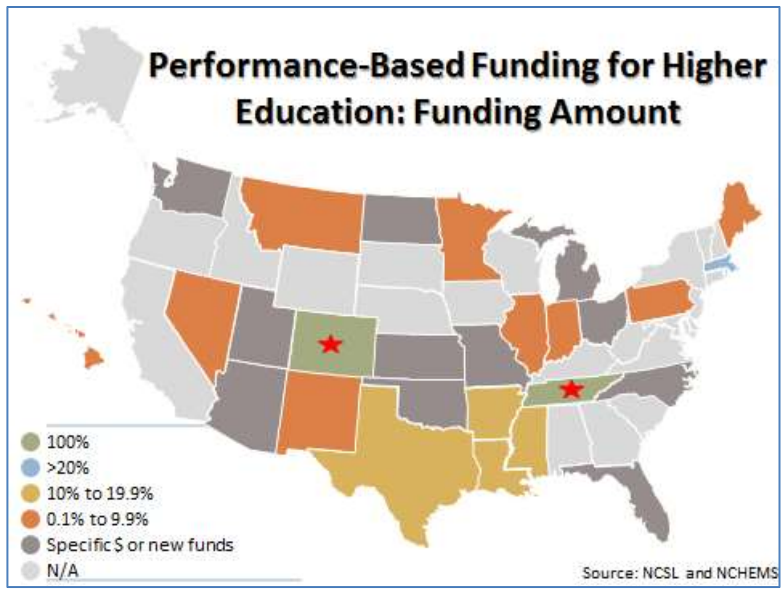
Those governing boards that lose state funding in the first year under the newly implemented model will be at a disadvantaged "starting line" in out years. The timing of the model creation and implementation makes it impossible for governing boards to make adjustments to practices that may result in better performance in the first year. 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. As the Department continues to implement the HB 14-1319 funding model, a loss of funding in the first year could lead to a downward spiral effect for underperforming institutions, resulting in reduced performance in future years and in turn, continued decreases in state funding.

For example, a 5 percent cut combined with the 6 percent tuition cap potentially could create deficits in institutional operating budgets, particularly for the low enrollment and rural institutions. This would result in the elimination of cost of living increases, hiring freezes and potential layoffs, which would lead to larger class sizes and reduced student services. Additionally, a university chief financial officer commented that a general fund budget cut along with the 6 percent tuition cap could have a negative impact on an institution's Composite Financial Index and a credit rating downgrade.

National experts, such as the National Center for Higher Education Management Systems (NCHEMS), have recommended incorporating stop-loss provisions that prevent institutions from losing more than a certain level of funding each year. A stop-loss provision can help to assuage the concern that a new system will immediately create a dramatic fluctuation in funding. It also provides institutions with greater leeway to adjust to the new policy, ensures the continuity and quality of services and prevents any potential increase in student tuition as a result of the loss of state funds.

HB 14-1319 contains five year "guardrails" that act as a "stop-loss" provision to keep a governing board from losing or gaining more than 5 percent from the total appropriated increase or decrease to Governing Boards in a given year; however, the bill does not contain a phase-in period of time ease the transition to the new funding model. Such provisions are common to other state's performance or outcome-driven models. State approaches to phasing in performance-based funding include:[1]

- **Arkansas**
  Five percent of funding in the 2012-2013 school year, and increasing by five percent increments until capped at 25 percent during the 2017-2018 school year.



- **Maine**
  Starting with five percent of base funding in FY 2013-14 and increasing by five percent increments each year until 30 percent of base funding is allocated based on performance.
- **Massachusetts**
  Allowed colleges a transition period to adjust to the new performance model by setting aside nearly $13.2 million to create a stop-loss fund, allowing institutions time to adopt strategies to produce favorable outcomes that meet to state performance goals.
- **Montana**
  Five percent of base funding will be at stake during the FY 2014-15 trial phase. The amount of performance funding for the long-term has not been determined.
- **Nevada**
  Five percent of base funding will be at stake during FY 2014-15. The amount of performance funding increases by five percent increments until reaching 20 percent in FY 2017-18.
- **Tennessee**
  The state phased in the new outcomes based funding model over three years: 20 percent in the first year, 30 percent in the second year and 50 percent in the third year. Additionally, institutions were provided non-recurring "hold-armless" funds over the transition period.

[1] Source: The National Conference of State Legislatures and state higher education websites.

Colorado is also unique in that the newly created performance funding model will apply to all of the General Fund operating support. Of the other states that have already or are currently implementing an outcomes-based model, only Tennessee has applied the outcome or performance measures to 100 percent of the state funding. However, Tennessee phased in the change to full outcomes-based funding over a three-year period and provided non-recurring “hold-harmless” funds during the transition to the new funding model. For this reason, the Department wants to ensure the smoothest transition possible as the model is implemented within the ambitious timelines of HB14-1319.

Waiver on the Financial Aid Calibration:

This request seeks a waiver from the statutory requirement for the financial aid calibration found in Section 23-3.3-103, C.R.S. This statute requires that annual appropriations for student financial assistance increase by at least the same percentage as the aggregate percentage increase of all General Fund appropriations to institutions of higher education. For FY 2015-16, this waiver is requested in order to target limited resources to public institutions of higher education this year in keeping with the requirements of SB14-001 and HB14-1319. Additionally, this waiver is requested in contemplation of the resources separately requested for the College Opportunity Scholarship Initiative in FY 2015-16 and is mindful of the substantial investment in financial aid that was made in FY 2014-15 far beyond the requirements of this section.

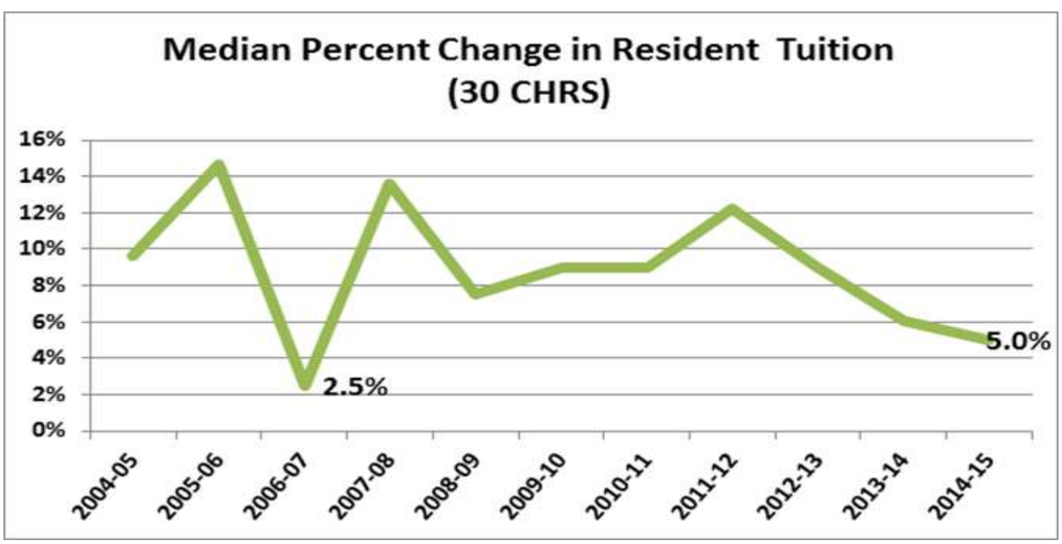
Anticipated Outcomes:

Six Percent Tuition Cap

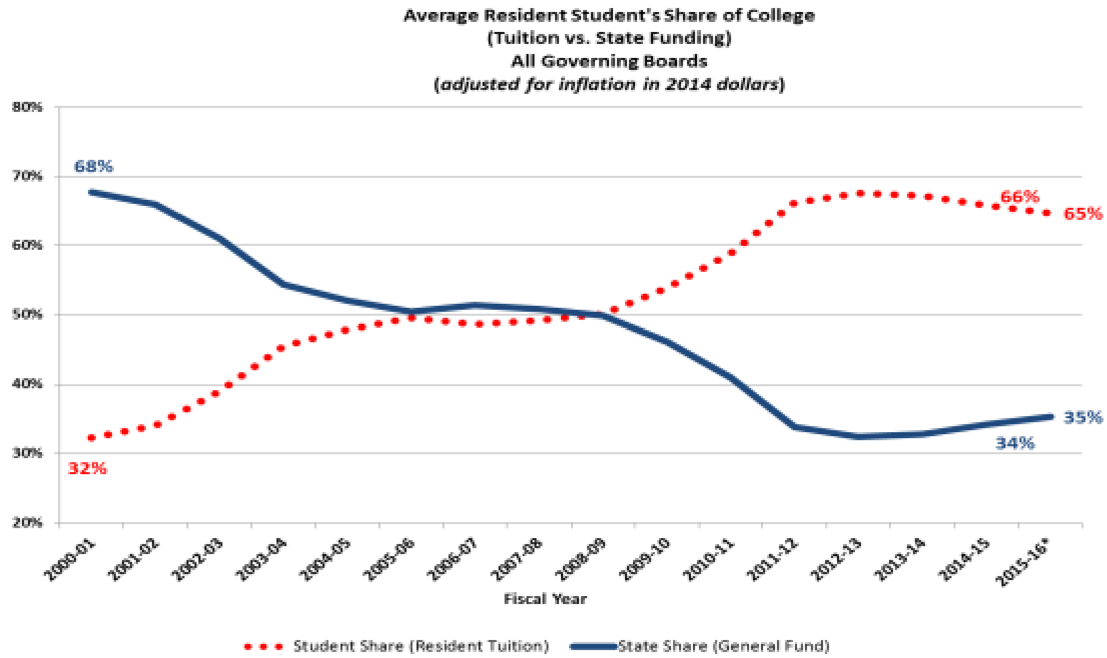
A continued state investment at this level attached to the continued resident tuition cap accomplishes the following:

1. A greater level of certainty about the ability for all governing boards to sustain a six percent resident tuition cap even with the unknown of implementing the new funding model under HB 14-1319.

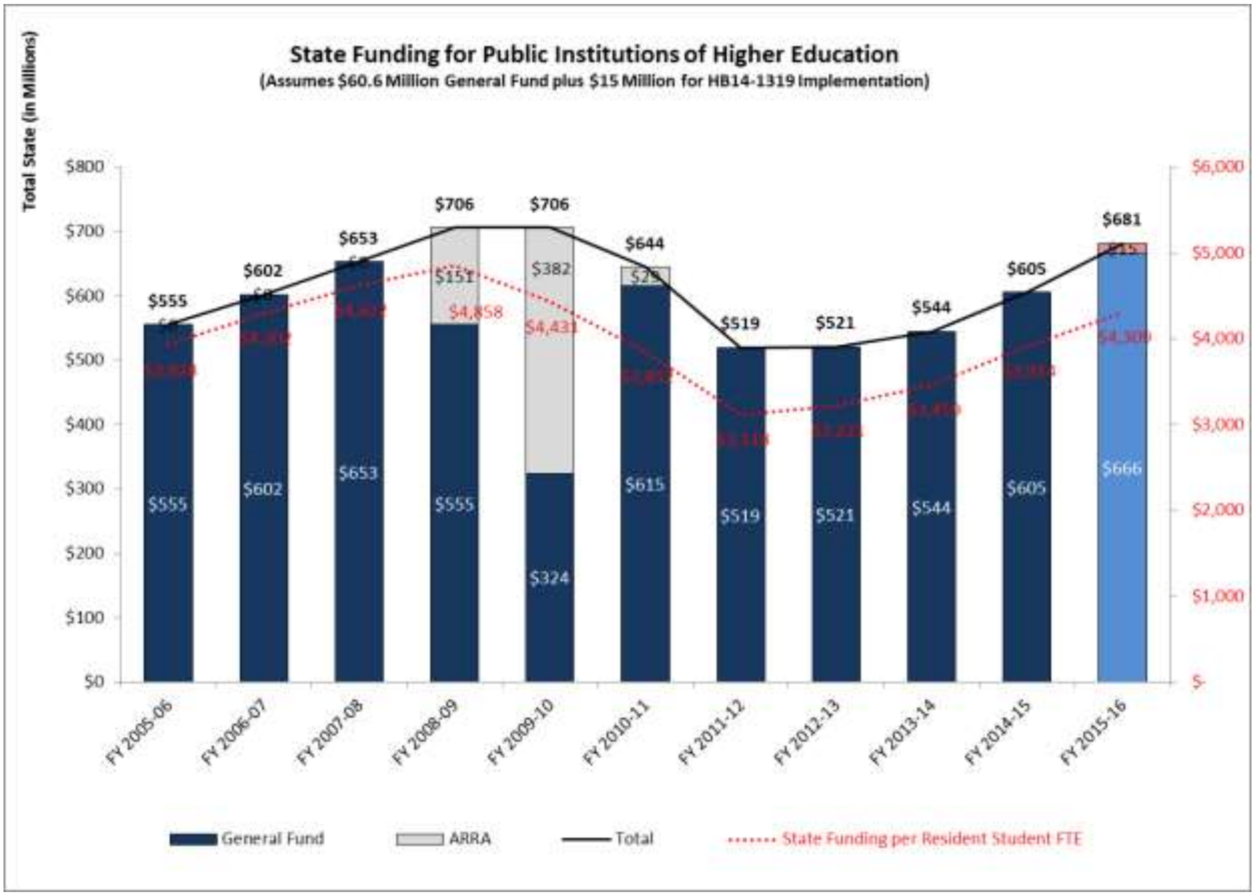
2. An incentive to keep resident tuition levels at and in some cases well below six percent for several governing boards including some of the higher cost research institutions. This would result in a second year of the lowest tuition increases since FY 2006-07.



3. The ability to hold the state versus student-family share of costs in place and even make further progress toward the goal of increasing the state share of a student's college education. The request would result in an additional one percent buy-down of the student's share of college (see chart below).



4. This request would continue the State's investment in higher education in recent years. (Please see the chart which follows on the next page.)



5. Finally, while student debt levels vary tremendously and depend on many factors such as the availability of financial aid and the total cost of attendance, ***The Project on Student Debt*** notes that generally "higher costs at the state or college level are associated with higher average debt." By helping keep resident tuition lower, this funding request would assist Colorado in moving out of the "High Debt States category." (Source: STUDENT DEBT AND THE CLASS OF 2012, Project on Student Debt, Institute for College Access & Success, Page 3.)

HB14-1319 Guard-rail/Performance Transition Five-Year Funding

Learning from other states' implementation of performance funding and wanting to ensure all institutions have an equal opportunity to adjust practices to ensure better performance in out-years, the Department proposes a $15.0 million set aside to smooth the transition to the new funding model. The $15.0 million set-aside mirrors the Massachusetts and Tennessee approach and allows for those higher performing institutions to see an increase in funding, while not penalizing other institutions for the time constraints implicit in HB14-1319.

1. Virtually all state higher education performance based/outcomes funding systems are phased in; in contrast, HB 14-1319 is subject to an implementation timeframe of just six months. This includes both building the model and determining the allocation results. A phased-in approach to the new performance funding model is wise, especially since the new performance funding model will

reallocate the base funding for governing boards in its entirety. Transitional "guard-rail"/performance transition estimated funding of $15.0 million, or approximately 2.5 percent of the total FY 2014-15 appropriations to the governing boards, will help ensure the continuity and quality of services at public institutions. The transitional five-year funding provides additional budget predictability for institutions and enables governing boards to continue to engage in responsible fiscal planning. Providing this time-limited appropriation acknowledges the guard-rail based path that Tennessee took when implementing when implement their outcomes based funding model, which is widely regarded as the most successful in the nation.

2. The Department also anticipates that this request will allow institutions time to adjust policies and programs in response to the new performance-based funding formula. This will result in an equitable "starting line" for all institutions and provides additional resources to help institutions improve outcomes, meet the goals of HB 14-1319, and the Colorado Commission on Higher Education Master Plan.

3. The proposed increases of $15 million for HB14-1319 transition funding and $60.6 million for the resident tuition cap would together help institutions avoid the fallout from facing a potential reduction in General Fund, depending on the outcome of the HB14-1319 model, combined with a 6 percent resident tuition cap. This would prevent larger class size and a reduction in student services.

4. The proposed funding provides an additional investment to aid in the successful implementation of HB 14-1319 and ease the anxiety of institutions during the transition to the new funding approach. Please note, however, that since the new performance funding model will not be released until after the November 1 budget submission deadline, *it is possible that the estimates on the transition performance funding needs may vary and that some of the $60.1 million may be requested to be utilized for this purpose*.

Assumptions and Calculations:

Six Percent Tuition Cap

The calculations for the higher education public institution General Fund increases are shown in the following table:

	FY 2015-16 Base	FY 2015-16 Requested Total Appropriation	FY 2015-16 Operating Request	Percent Change
Governing Boards Total	582,856,984	641,142,682	58,285,698	10%
Local District Junior Colleges	14,044,591	15,449,050	1,404,459	10%
Area Vocational Schools	8,983,694	9,882,063	898,369	10%
Total Operating Request	**605,885,269**	**666,473,796**	**60,588,527**	**10%**

NOTE: Total includes all public governing boards, LDJC and AVS appropriations and base adjustments for FY 15-16. Appropriations and base adjustments include HB 14-1336, special bills SB14-001, SB14-211 appropriations, and SB13-033 base adjustments as per the SB13-033 Legislative Council fiscal note and the FY 14-15 COF stipend amount of $75 per credit hour or $2,250 per FTE.

HB14-1319 Guard-rail/Performance Transition Five-Year Funding

To smooth the rapid transition to the new funding model, an appropriation of $15.0 million is requested which represents slightly over 2.5 percent of the FY 2014-15 appropriation. The following table shows this calculation of 2.5 percent of General Fund (see table below).

Governing Board	FY 2014-15 GF Appropriation to Governing Boards	2.5% of FY 2014-15 Appropriations
Adams State College	12,837,288	320,932
Colorado Mesa University	22,027,251	550,681
Metropolitan State University of Denver	43,681,193	1,092,030
Western State College	10,585,447	264,636
Colorado State University	121,978,483	3,049,462
Fort Lewis College	10,594,604	264,865
University of Colorado	167,097,810	4,177,445
Colorado School of Mines	18,669,456	466,736
University of Northern Colorado	37,357,027	933,926
Colorado Community College System	137,465,925	3,436,648
Total FY 2014-15 GF	582,294,484	14,557,362

Note that the FY 2015-16 continuing base General Fund request contains an addition $562,500 General Fund associated with the annualization of SB13-033.