

TOPIC: FISCAL YEAR 2015-16 BUDGET UPDATE

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I. SUMMARY

On January 15th, the Governor’s Office of State Planning and Budgeting (OSPB) submitted a budget amendment to the Department of Higher Education’s Nov. 1st request —“Operational Funding Increase for Public Colleges and Universities”— request to the Joint Budget Committee (JBC) and the General Assembly. The January 15th Budget Amendment completely replaced the Nov. 1st budget request and includes recommended allocations to governing boards, which reflects the results of the new HB14-1319 funding allocation model. The total dollar amount of the request, \$75.6 million General Fund, has not changed from the Nov. 1st request. However, the January 15th Budget Amendment lays out the details of how the requested money will be allocated to institutions and provides more details about how proposed transition funding will be utilized. Table 1 below is a summary of the requested budget amendment.

Table 1. FY 2015-16 General Fund Budget Request Summary

	FY 2015-16 Base	FY 2015-16 Operating Request	FY 2015-16 Temporary/ One Year Request	FY 2015-16 Requested Total Appropriation
Governing Boards Total	\$582,856,984	58,285,698	\$0	\$641,142,683
Local District Junior Colleges	\$14,044,591	1,404,459	\$0	\$15,449,050
Area Vocational Schools	\$8,983,694	898,369	\$0	\$9,882,063
Additional GB Affordability and HB14-1319	\$0	\$4,595,175	\$0	\$4,595,175
Strategic Performance Investment Program	\$0	\$0	\$10,404,825	\$10,404,825
Total Request	\$605,885,269	\$65,183,702	\$10,404,825	\$681,473,796

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 SB 13-033 Legislative Council fiscal note and the FY 14-15 COF stipend amount of \$75 per credit hour or \$2,250 per FTE.

This discussion item is to (1) provide additional information and answer questions about the components of the Governor’s budget amendment request related to the requested operation increase for public colleges and universities, and (2) update the status of the final output of the HB14-1319 Outcomes-based Model approved by the Commission last December.

II. BACKGROUND

Due to the provisions of HB14-1319, the Department of Higher Education (DHE) had a different budget submission calendar for FY 2015-16 than it has in previous years. In the past, DHE submitted its entire budget request, including allocations to the governing boards for College Opportunity Fund (COF) stipends and Fee-for-Service contracts, to the JBC on November 1st. HB14-1319 required the Commission to create an outcomes-based model following provisions specified in the legislation to allocate funding in FY 2015-16. Due to the heavy-lift and short timeline outlined in HB14-1319, the bill allowed the Department to submit a general request for operating funding on November 1, 2014 and gave the Department until January 15th to submit a final operating budget request with allocations to institutions.

On November 1st, the Department submitted a request for \$75.6 million in General Fund support for the College Opportunity Fund, Local District Junior Colleges and Area Vocational Schools. The November 1st request included \$60.6 million for ongoing operating support and \$15.0 million in HB14-1319 transition funding to help institutions make changes to meet the policy priorities of HB14-1319. At the time the request was submitted, the process for creating the HB14-1319 funding allocation model was still ongoing. Department staff expressed to the Colorado Commission on Higher Education (CCHE), the Governor's Office of State Planning and Budget (OSPB) and the Joint Budget Committee (JBC) there was a possibility the estimated split between operating and transition funding would change as the model was finalized.

At the December 4, 2014 CCHE meeting, the Commission approved the Funding Allocation Model Expert Team's (FAMET) and Executive Advisory Group's (EAG) recommended model, including the metrics and weights in the model, the COF stipend amount, and an agreement to get each governing board to at least a ten percent increase. Before this vote, Department staff informed the Commission that the numbers in the draft model would change due to the application of the guardrails, as well as any necessary technical adjustments.

The changes from the draft to the final model are:

- 1) An adjustment was made to the COF stipend hours to account for additional ASSET students, as per the fiscal note for SB13-033;
- 2) A programming error was corrected to accurately account for the Underrepresented Minority (URM) and Pell bumps for transfer students on the Performance side and the remediation weight on the Role and Mission side;
- 3) The guardrails outlined in HB14-1319 were applied to the model so that no institution's allocation grew by less than five percent or more than fifteen percent.

As mentioned earlier, in order to comply with the SB14-001 six percent tuition cap, FAMET and the EAG agreed to get all institutions to at least a ten percent increase in operating funding for FY 2015-16. Once the model was finalized, the Department was able to calculate the correct allocations to each governing board and determine how much in on-going operating would be

needed to reach at least ten percent for each governing board. Details for each governing board can be found below in Table 2.

In addition to approving the model, CCHE gave their approval for the Department to move forward with requesting a form of transition funding. Due to several of the specific parameters contained in HB14-1319 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. Because of the uncertainty around the results of the performance funding model, the Governor has proposed funding specifically for HB14-1319 implementation guard-rail/performance transition. For the January 15th request, the Department submitted a request for CCHE authority to implement the Strategic Performance Investment Program (S-PIP), which is described in greater detail below.

III. STAFF ANALYSIS

The “Operational Funding Increase for Public Colleges and Universities” Budget Amendment includes:

- 1) \$58.3 million General Fund that runs through the HB14-1319 model for governing boards and specialty education programs at the University of Colorado and Colorado State University,
- 2) \$4.6 million to bring all governing boards participating in the model up to a ten percent operating increase to comply with the six percent tuition cap in SB14-001,
- 3) \$1.4 million for the Local District Junior Colleges,
- 4) \$0.9 million for Area Vocational Schools, and
- 5) \$10.4 million for a Strategic Performance Investment Program (S-PIP) to be allocated to governing boards by CCHE.

The Governor’s request also includes a waiver from the statutory requirement for the financial aid calibration found in Section 23-3.3-103, C.R.S.

Table 2 below outlines the details of the January 15th requested allocations to governing boards with the HB14-1319 guardrails and ten percent increase provisions applied.

Table 2: Summary of Proposed FY 2015-16 Appropriations by Governing Board

Governing Board	FY 2014-15 General Fund ¹	FY 2015-16 Results from Model ²	FY 2015-16 Total General Fund -- Results from Model w/ Guardrails ²	One Time Funding Required for 10% Increase	Percent Change	FY 2015-16 Total Allocation Request
Adams State University	\$12,839,538	\$14,123,492	\$13,961,407	\$162,085	10.0%	\$14,123,492
Colorado Mesa University	\$22,036,251	\$24,239,876	\$24,402,736	\$0	10.7%	\$24,402,736
Metropolitan State University	\$43,835,318	\$48,218,850	\$50,353,372	\$0	14.9%	\$50,353,372
Western State Colorado University	\$10,587,697	\$11,646,467	\$11,487,064	\$159,403	10.0%	\$11,646,467
Colorado State University	\$122,007,733	\$134,208,506	\$133,191,630	\$1,016,877	10.0%	\$134,232,736
Fort Lewis College	\$10,597,979	\$11,657,777	\$11,956,065	\$0	12.8%	\$11,956,065
University of Colorado	\$167,136,060	\$183,849,666	\$182,483,559	\$1,366,107	10.0%	\$183,849,666
Colorado School of Mines	\$18,672,831	\$20,540,114	\$20,517,825	\$22,289	10.0%	\$20,540,114
University of Northern Colorado	\$37,368,277	\$41,105,105	\$39,236,691	\$1,868,414	10.0%	\$41,105,105
Colorado Community College System	\$137,775,300	\$151,552,830	\$153,552,335	\$0	11.5%	\$153,552,335
Local District Junior Colleges	\$14,044,591	\$15,449,050	\$15,449,050	\$0	10.0%	\$15,449,050
Area Vocational Schools	\$8,983,694	\$9,882,063	\$9,882,063	\$0	10.0%	\$9,882,063
Total -- with 10% increase	\$605,885,269	\$666,473,796	\$641,142,684	\$4,595,174	10.8%	\$671,093,201

¹ FY 2014-15 General Fund amount includes appropriations from HB14-1336, SB14-001, SB14-211, and a SB 13-033 base adjustment as per the SB 13-033 Legislative Council fiscal note..

² Includes \$60.6 million in requested base funding.

Of the \$15.0 million requested for transition funding on November 1st, \$4.6 million was used to get each governing board up to at least a ten percent increase in FY 2015-16 to comply with the SB14-001 six percent tuition cap. In the January 15th request, the \$4.6 million was requested as ongoing appropriation to the College Opportunity Fund, but the allocation to governing boards to reach at least a ten percent increase was requested as one-time. In out-years, the Department anticipates the \$4.6 million in funding would run through the HB14-1319 funding allocation model, as opposed to being allocated to governing boards after the model has been run to reach a certain level of increase, as was done in for FY 2015-16, to comply with SB14-001. This also means that for FY 2016-17, the base upon which the statutorily required plus or minus five percent guardrails are calculated will be on what the governing boards received from the 14-1319 model before the \$4.6 million was applied and not on the one time bump in funds to ten percent the Governor is requesting in FY 2015-16.

With \$4.6 million of transition funding being used to get governing boards to an at least ten percent increase in operating funding, \$10.4 million is left for the Strategic Performance Investment Program, or S-PIP.

Strategic Performance Investment Program

As discussed above, the performance funding allocation model for institutions of higher education required by HB14-1319 reallocates all base funding. For those governing boards whose allocation under the HB14-1319 model was under the average increase of ten percent in the first year, the continuation of services for their customer, the student, and the implementation of performance funding could be jeopardized. 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. 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.

For Colorado, the creation of the Strategic Performance Investment Program would provide the State, CCHE and institutions with an important fiscal tool to achieve the goals outlined in the State's Master Plan and to improve results under the State's new funding model in the future. Under the Strategic Performance Investment Program, CCHE, in cooperation with the JBC, will have a process and the resources necessary to make funding available to institutions who propose creative ways to accelerate progress on student outcomes and/or achieve efficiencies or cost savings.

- 1) This approach will allow CCHE and institutions of higher education to identify best practices for outcomes improvement and cost-savings or cost-avoidance initiatives which can be duplicated. Such best practices can serve as a repository from which all institutions will be able to learn and benefit—creating a more effective, efficient and affordable state-wide system of higher education.
- 2) The Strategic Performance Investment Program serves both as a way to rapidly improve outcomes and as a necessary tool to help ensure a successful transition to a robust, data-driven performance model while reducing the risk of unforeseen consequences. Colorado has gained national attention by boldly setting on a rapid performance path and the Strategic Performance Investment Program will help smooth the transition for all the public institutions to successfully and sustainably participate in the new performance-driven model.

To implement the strategic investment program, CCHE would issue a request for proposals centering on helping institutions improve their performance in the policy areas highlighted in the HB14-1319 funding allocation model. The request for proposals would be issued in March 2015 with the proposals due in May 2015. In May, an advisory committee comprised of interested stakeholders, such as legislators, CCHE members, and community members, would evaluate the proposals and award one-time funding to institutions on July 1, 2015.

There are three evaluation criteria, described below, and in their proposals each governing board must indicate which criteria their plan targets. Each application will include a short narrative explanation of the project, identify the specific criteria their project will meet, and provide an

explanation of how outcomes will be measured using data. Outcomes must be measurable through data in order for the submission to be considered. In the first year, priority will be given to institutions receiving below ten percent in the funding allocation model prior to the adjustment to comply with the SB14-001 resident tuition cap.

Strategic Performance Investment Program Criteria

Student Success	Improving student progress (retention) and increasing the number of students who complete degree and certificate programs (completions). An example of this program could be a recipient Governing Board utilizing the funds to create or strengthen student support service programs that would lead toward improved student retention (e.g. academic tutoring, assistance in course selection)
Closing Achievement Gaps	Programs that help close achievement gaps among students from underrepresented ethnic, racial and income groups in all areas of educational progress (Pell-eligible/Underrepresented minorities)
Operational Efficiencies	Assessing institutional capacity to better allocate resources that improve performance under the HB14-1319 funding allocation model. Capacity may refer to infrastructure improvements, consolidation of administrative functions, or utilizing existing capacity to generate savings that can allow for additional resources to be reallocated to improve outcomes in the policy areas highlighted in the HB14-1319 funding allocation model

In addition to the criteria, Governing Boards must demonstrate that the funds made available under this program be used to supplement, and not supplant current or previously funded activities. In other words, the use of Strategic Performance Investment Program funds by a Governing Board may not result in a decrease in other funds for a particular activity, which, in the absence of the Strategic Performance Investment Program funds, would have been available to conduct the activity.

It is anticipated that CCHE would approve the funding awards in time for funding to be released at the beginning of the FY 2015-16 fiscal year. Once awards have been determined, the Department would provide a preliminary report to the Joint Budget Committee on which institutions were awarded funds and how the funds will be used. The Department would also require institutions receiving an award to report on the progress that has been made toward improving performance under the new funding allocation model at year-end. The Department would then include a final report with the submission of the November 1 budget request. The report would describe the implementation status of each project; highlight any best practices and new approaches for innovation and success, lessons learned and suggestions for expanding use of best practices to a larger scale.

IV. STAFF RECOMMENDATIONS

Staff has no recommendation at this time. Joint Budget Committee Figure Setting for the Department Higher Education takes place on March 3, 2015.

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

- BA-01 — Operating Increase for Public Colleges and Universities
 - BA-01 Attachment A: Calculations for Governing Board Requested Allocations
 - BA-01 Attachment B: HB14-1319 Model Support Letter
 - BA-01 Attachment C: One-page HB14-1319 Funding Model Overview
 - BA-01 Attachment D: Final HB14-1319 Report