

TOPIC: FISCAL YEAR 2007-2008 DEPARTMENT OF HIGHER EDUCATION BUDGET UPDATE

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I. SUMMARY

The Commission approved a budget in October, 2006 that was submitted to the Joint Budget Committee that recommended the first year request of the NCHEMS study at the level of \$113.8M. That request included general fund payments for mandated costs, the second year of unfunded enrollment, payment of private school stipends and an increase equivalent to the CPI for Local District Schools and the Area Vocational Schools. The budget summary is shown in the chart below.

JBC Request

| Type of Cost | Cost |
|----------------------------|----------------------|
| Stipends st \$2,670 | \$10,043,960 |
| Fee-For-Service | \$60,039,836 |
| Unfunded Enrollment | \$36,472,069 |
| **Financial Aid | \$5,729,207 |
| Local District Jr Colleges | \$478,382 |
| Area Vocational Schools | \$337,257 |
| Private Schools | \$1,090,995 |
| Total Request | \$114,191,706 |

*Tuition Revenue is increased by 3.5% at CCCS, 5% at 4 year, and 7% at Research

**Financial Aid Request: \$5.3M Need Based Grants, \$429,207 Native American

After the submission of the Commission budget, the new administration took office and began reviewing the needs of the state as a whole. The Office of State Planning and Budget then asked the Department to review its budget in light of their ability to fund that level of an increase for higher education.

II. ANALYSIS

A. General Fund Operating Budget

Governor Owen's budget recommendation to the Joint Budget Committee was a \$50M request summarized below.

*Governor Owens' Request

| Type of Cost | Cost |
|----------------------|---------------------|
| Stipends at \$2,670 | \$10,043,960 |
| Fee-For-Service | \$38,865,045 |
| Private Schools | \$1,090,995 |
| ***Financial Aid | \$5,729,207 |
| Total Request | \$55,729,207 |

* At \$50M request 70% of Mandated Cost Increases are being funded. The remaining 30% will be funded through tuition.

**Tuition Revenue is increased by 3.5% at CCCS, 5% at 4 year, and 7% at Research

***Financial Aid Request: \$5.3M Need Based Grants, \$429,207 Native American

The Owens' version maintained the use of the mandated cost model and requested funding for mandated costs at 69% across-the-board.

Discussions with Governor Ritter and the Joint Budget Committee directed the Department of Higher Education to come to agreement with the Governing Boards on the distribution of approximately \$50M in General Fund dollars.

During several discussions over a two to three week period in February, the CEO's of the state institutions of higher education came to agreement with regard to recommended distribution of the new General Fund support anticipated for fiscal year 2007-08. The essence of the governing boards' agreement and the Department's request to the JBC is that each institution will receive the same proportionate share of the requested \$48.9 million in new general fund support for fiscal year 2007-08 as it received in total general fund support for the current 2006-07 fiscal year. The agreement also depends on the enactment of Senate Bill 97, which would provide additional funding for the CU-Health Sciences Center and indirectly afford some relief to the financial pressure on the entire higher education system.

The request is \$57,698,388, \$1.9 million more than the request for higher education submitted by OSPB on February 9. This is the amount needed to provide a flat increase of 8.45% for Area Vocational Schools and Local District Colleges, the same as the average for the rest of higher education. This corrects an omission from the budget submitted by the Owens Administration.

| Type of Cost | Total Amount | % of Gov Boards Total |
|-----------------------------------|---------------------|-----------------------|
| Governing Board Requests | | |
| Adams State College | \$1,061,668 | 2.17% |
| Mesa State College | \$1,743,704 | 3.57% |
| Metropolitan State College | \$3,478,995 | 7.11% |
| Western State College | \$884,911 | 1.81% |
| Colorado State University System | \$10,425,736 | 21.32% |
| Fort Lewis College | \$908,142 | 1.86% |
| University of Colorado System | \$15,194,462 | 31.07% |
| Colorado School of Mines | \$1,693,914 | 3.46% |
| University of Northern Colorado | \$3,207,159 | 6.56% |
| Colorado Community College System | \$10,310,311 | 21.08% |
| *Financial Aid | \$5,729,207 | |
| Local District Junior Colleges | \$1,154,950 | |
| Area Vocational Schools | \$814,234 | |
| Private Schools | \$1,090,995 | |
| Total Request | \$57,698,388 | |

*\$5.3M for Need based aid, \$429,207 for Native American Tuition Assistance

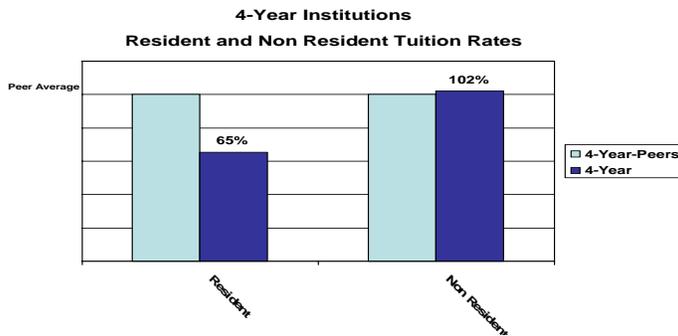
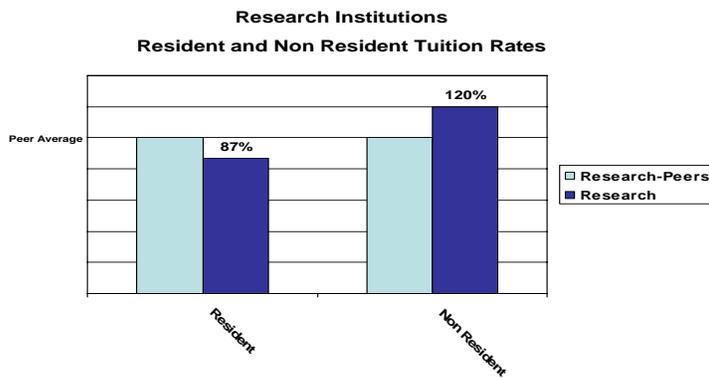
*Contingent upon Passage of SB97

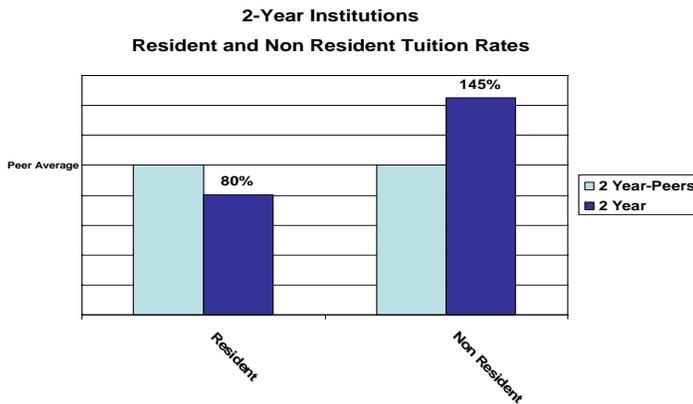
B. Tuition Revenues

The tuition proposal recommended in the prior version of the budget was based upon revenue increases of 3.5% for Community Colleges, 5% for governing boards of four-year institutions and 7% for governing boards of research institutions.

Footnote 43 in the 2006-2007 Long Bill limited governing board tuition increases for resident, undergraduate students to a rate increase of 2.5%. Since the inflation calculated at the time for institutions was paid at 84% by the General Fund, institutions were not able to make any quality improvements. Much of the tuition and General Fund revenues funded inflation and other mandatory cost increases in this fiscal year. In prior fiscal years, there were reductions in General Fund and, as a result, no quality improvements were made.

A recent study commissioned by CCHE and conducted by NCHEMS, showed that most institutions, when compared to their peers across the country, are **lower in undergraduate resident tuition rates** and higher in non-resident tuition rates. The following charts compare the resident and non-resident tuition and fees for Research, Four Year and Community Colleges in Colorado with their peers nationwide.





As you can see from the charts, resident tuition rates at Research, Four Year, or Community Colleges when compared to peer institutions are well below the peer average. For example, research institutions resident tuition rates on average are 87% of the peer average. Correspondingly, non resident tuition rates are well above the peer average. Essentially, this demonstrates that there may be flexibility in setting resident tuition rates and little or no flexibility in setting non-resident tuition rates as they may have already outpaced what the market can handle.

In addition, the Department feels that the Tabor time-out relegates tuition spending authority for all other student populations to the discretion of the elected or appointed governing boards.

Tuition flexibility in FY2007-2008 will allow governing boards to address the lack of revenue available for inflationary and other increased costs such as utilities and other operating costs for new buildings coming on line. Lack of revenue also prevents quality improvements they want to make to enhance the quality of education they can provide students.

To loosely paraphrase one of the University presidents, *Colorado is a low tuition state but a high tuition state for any low income student or family.* Balancing the needs of low income families and students with the goal of moving Colorado's institutions into an average revenue position with their peers requires that the price of higher education be offset by increased financial aid for low income families.

III. STAFF RECOMMENDATION

That the Commission concur with the agreed upon approach for the budget for the Department of Higher Education as set forth above. That the Commission also concur with the policy the Department is working to develop to provide governing boards greater tuition flexibility in exchange for a higher commitment to financial aid to mitigate tuition increases for Colorado's lowest income students.