

TOPIC: PEER GAP ANALYSIS: INSTITUTIONAL PEER GROUP CONCURRENCE

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I. SUMMARY

The National Center for Higher Education Management Systems (NCHEMS), hired to develop a budget/finance model for the FY2008-2009 budget year, began their work this summer by recommending national peer groups for each public institution of higher education in Colorado. Each Governing Board was given the opportunity to negotiate individually with NCHEMS and to comment on both their selected peers as well as peers selected for other institutions. The Chief Executive Officers reached consensus on their respective peer groups for purposes of this study during their August 22nd meeting.

II. BACKGROUND

Last year at the request of DHE and with support from the institutions, NCHEMS addressed the fundamental question of whether Colorado institutions were adequately and equitably funded to accomplish their statutory missions. Its analysis compared Colorado's public institutions of higher education with similar ("peer") institutions across the country and showed that Colorado institutions were approximately \$832 million short in revenues compared to the average of the peer institutions selected. The study completed in Fiscal Year 2007 was discussed at length at the higher education summit in June and as a result has become the precursor to the development of a budget allocation model for FY 2008-2009.

Full results of last year's study are posted on the Department of Higher Education website, <http://www.state.co.us/cche/> under the link of 'Budget and Finance' and then 'Higher Education Finance Study'. The finance model now recommended by NCHEMS is based on the total revenues (in the form of state and local appropriations and tuition and fees) for each peer institution and comparing those revenues to its Colorado counterpart.

The key elements for a Colorado higher education budget model include:

- A model that reflects our unique system of higher education;
- A focus on revenues (not costs), what the state should contribute and what students/families should contribute;
- Consistency and equity from year-to-year regardless of overall funding levels;
- Recognition of the unique needs of different types of institutions;
- Affordability;
- Accounting for tuition as a revenue source that reflects state priorities;
- Maintenance of the efficiencies achieved by our system of higher education during lean budget years;
- Incremental budget growth as revenues permit.

NCHEMS' key recommendation was to move the higher education funding in Colorado away from the existing cost-driven model to a revenue-driven model. NCHEMS identified two types of national models: one that uses operational costs (utilities, salaries, risk management, etc.) and one that uses benchmarks developed through comparative institution analysis primarily taking revenue into consideration. Based on NCHEMS' strong recommendation to utilize a model that benchmarks revenues, the Department of Higher Education (DHE) is moving forward in developing a budgeting model for FY2008-2009 and beyond that incorporates the NCHEMS recommendations to use a revenue model.

III. STAFF ANALYSIS

The first step in developing a budget funding model for the FY2008-2009 year is to establish a group of institutional peers that are most appropriate for each institution in Colorado. NCHEMS was again hired to develop these revised peer groups for each institution, based on considerations of similarity in mission, size and program mix. Revenues were not considered until after the selection. An effort was made to include regional institutions wherever possible, and actual peers were chosen, not "aspirational" peers.

Our goal was to have concurrence from the Chief Executive Officers (CEOs) on the peers selected for financial modeling. Institutional vetting was accomplished in July and August between the DHE, NCHEMS and the CFOs at the institutions. This process allowed the institutions to provide rationale for objecting to NCHEMS-proposed peer institutions they did not feel were a good match to their institution and to suggest additions or substitutions. The institutional comments were then reviewed and an NCHEMS recommendation was made back to the institutions via DHE. The CEOs agreed on their peers and the peer institutions of other schools during their August 22nd meeting.

The peer groups for each institution are listed as [Attachment A](#) for four-year institutions and [A-1](#) for two-year institutions. [Attachment B](#) is an Excel spreadsheet with updated peer benchmark numbers using the same methodology as the original study.

CCHE staff will now update the original study numbers based upon more recent (FY2005-2006) national data. When that is accomplished, the collaborative process between NCHEMS, DHE and the Governing Boards will focus on apportioning expected FY09 revenue increases between tuition and fees and general fund. This will begin what will likely be an extended effort to reach parity with Colorado institutions' peers over time.

IV. STAFF RECOMMENDATION

That the Commission ratify the peer institutions recommended by the NCHEMS and concurred in by the Chief Executive Officers for use in the Peer Gap Analysis and subsequent financial modeling.