

**TOPIC: UPDATE ON FY 2016-17 BUDGET PROCESS AND HIGHER EDUCATION FUNDING ALLOCATION MODEL**

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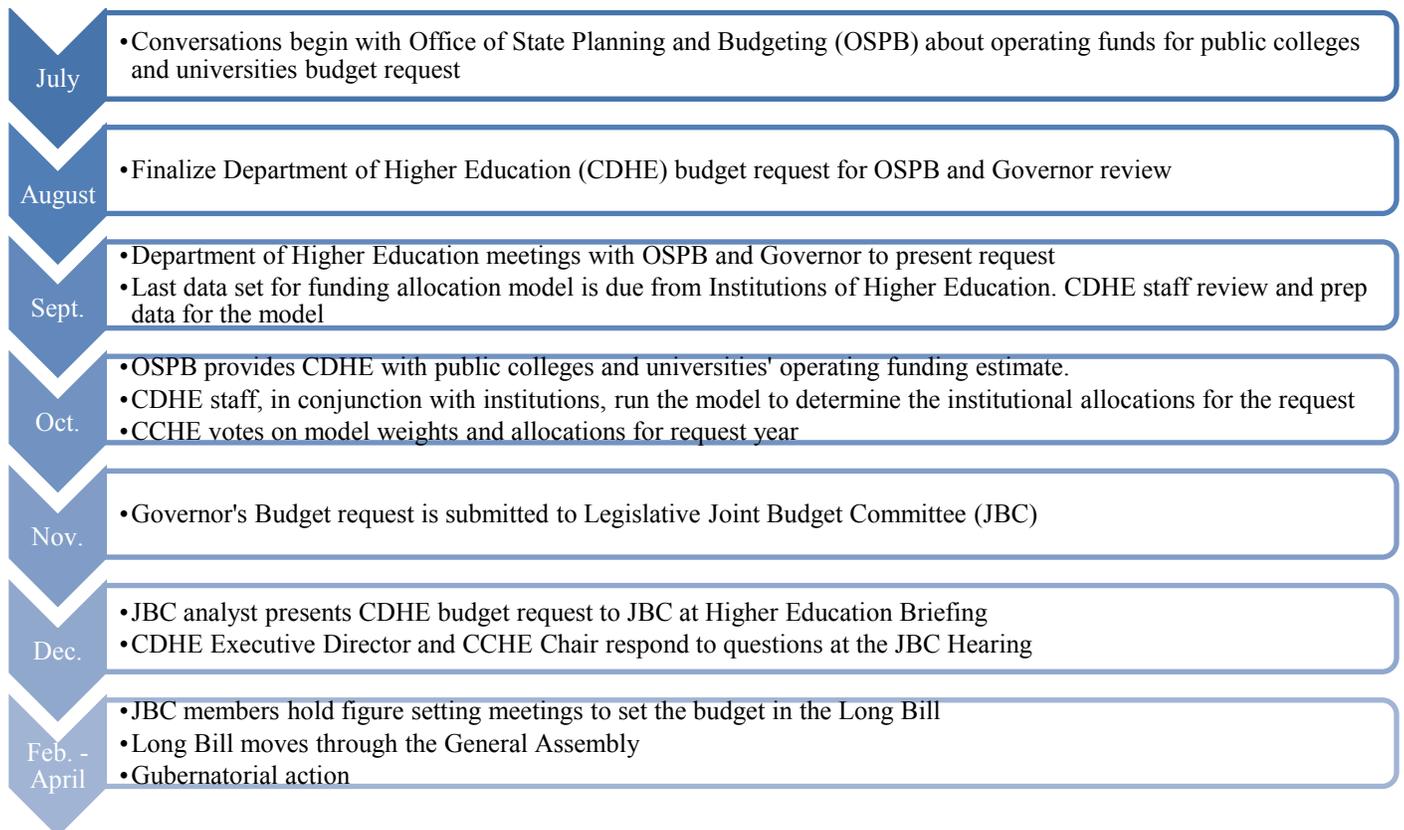
**I. SUMMARY**

This discussion item is to share updates on fiscal year (FY) 2016-17 budget process and changes to the higher education funding model.

**II. BACKGROUND**

Each year, the Department prepares and the Colorado Commission on Higher Education (CCHE) approves an annual budget request for public colleges and universities, along with student financial aid calibration.

The Department is currently working on the budget request for fiscal year (FY) 2016-17 for submission to the Governor's Office of State Planning and Budgeting (OSPB). The Department's budget request is in process. Below is the budget process calendar.



Pursuant to HB 14-1319, allocations to governing boards are determined through the new higher education allocation and each year thereafter, the November 1 budget request shall include:

- (1) A detailed description of the fee-for-service contract factors, metrics, and values assigned for each; and,
- (2) Specific details for each institution on how the fee-for-service contract is applied, the level of funding requested for each factor and metric.

The new funding allocation formula was developed in a very short time frame, due to the statutory requirements. Following the implementation of the new allocation formula for FY 2015-16, the Department, institutions, OSPB and the Joint Budget Committee (JBC) identified needed improvements – simplification of the factors and metrics, creating more intuitiveness, addressing data issues, and reduce volatility.

Over the next six-months, the Department again engaged in an inclusive and collaborative process to discuss the development and implementation of any modifications. This has included the formation of a Funding Allocation Model Review Team (Review Team), which is comprised of representative from each governing board and OSPB.

Since April, this team has spent countless hours working to improve the model. In addition to technical corrections, Department staff and the team have worked to address the needed modifications.

### **III. STAFF ANALYSIS**

The Department brought a proposal to the Review Team that would modify both the Role & Mission and Outcome portions of the allocation model.

#### **Modifications to Role & Mission**

The proposal would reduce the Role & Mission from three factors to two - eliminating weighted student credit hours and the tuition stability factor and include a more well-designed factor that captures “mission differentiation,” which is based on expenditure/revenue data, that represents mission differentiation for each governing board (i.e., size, location, selectivity, cost of programs).

In summary, the proposed changes include:

- Removing Weighted Credit Hours from Role and Mission
- Change “Tuition Stability Factor” to “Mission Differentiation”
- Add Mission Differentiation as a base amount to replace weighted credit hours and tuition stability factor.
  - Mission Differentiation: a set dollar amount for each governing board which takes into account:
    - economies of scale/capacity (FTE),
    - ability to generate tuition revenue, and

- Program offerings

In concept, a majority of the Review Team agreed to the proposed change but felt additional work is needed on the Mission Differentiation factor. A small working group has been formed to examine this issue in greater detail and will bring forth their recommendation to the Review Team in September.

**Modifications to Outcomes**

On the Outcomes (performance) side of the allocation model, concerns were raised that the Volume Adjusted Awards metric hurt the intuitiveness of the model.

The Department recommended the removal of this item or capping this item at a reduced amount. Again, although not unanimous the group decided to leave this “productivity” metric in place but limiting it to a set dollar amount.

Through September, the Department and Review Team will work to finalize the components of the allocation model along with uploading current data into the model. The Department will bring forth the budget request, changes to the model and governing board allocations to the Commission for approval at the October meeting.

**IV. STAFF RECOMMENDATIONS**

This item is for discussion only.

**V. STATUTORY AUTHORITY**

§23-18-307 Budget provisions - reporting

(1) As part of the department's 2014 presentation to the legislative committees of reference pursuant to section 2-7-203, C.R.S., the department shall report its progress in implementing this part 3 and shall provide a draft of the factors and metrics, with their weights, that the commission is considering pursuant to section 23-18-306.

(2) (a) 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 but that does not include the specific allocation to each governing board.

(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 performance funding metric.

(3) For the 2016-17 state fiscal year and each fiscal year thereafter, the department and the commission shall submit a budget request by November 1 of each year that includes:

(a) 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

(b) 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 performance funding metric.

(4) In developing the annual general appropriations bill, the joint budget committee shall follow the provisions of section 23-18-303 in calculating the amounts of fee-for-service contracts, including the role and mission funding factors and performance funding metrics as determined by the commission, but may apply different weights to the factors and metrics than the values determined by the commission. If the joint budget committee alters the value of a factor or metric, the new value shall be applied to the determination of all fee-for-service contracts pursuant to section 23-18-303.