

January 10, 2003

Governor's Blue Ribbon Panel on Higher Education for the 21ST Century

Introduction

In August 2001, Governor Bill Owens created a Blue Ribbon Panel to examine issues facing public higher education in Colorado. The Panel includes:

Bruce Benson	Blue Ribbon Panel Chair, Citizen at Large
Representative Gayle Berry	Blue Ribbon Panel Vice Chair, State Rep.
Senator Norma Anderson	State Senator
Raymond Baker	Member, CCHE
Representative Kelley Daniel	State Representative
Lena Elliott	Member, State Board for Community Colleges
Tim Foster	Executive Director, CCHE
David Herrera	Citizen at Large
David Greenberg	Member, CCHE
The Honorable Richard Lamm	Former Colorado Governor, Citizen at Large
Senator Stan Matsunaka	State Senate President
Ron Pettigrew	Member, State Board, CSU System
Edward Romero	Citizen at Large
Jerry Rutledge	Member, Board of Regents, CU
Charles W. Smith	Citizen at Large
Representative Nancy Spence	State Representative
Senator Penfield Tate	State Senator

The Panel also has an advisory committee, which includes:

Hank Brown and Kay Norton, Presidents of the University of Northern Colorado
President Lee Halgren, State Colleges in Colorado
President Elizabeth Hoffman, University of Colorado System
President Joe May, Colorado Community College System
President John Trefny, Colorado School of Mines
President Al Yates, Colorado State University
President Sheila Kaplan, Metropolitan State College of Denver
Interim President Robert Dolphin, Fort Lewis College

All members of the Colorado Commission on Higher Education met with the panel thirteen times. Members of the Commission are:

Peggy Lamm, Chair	Pres Montoya
James M. Stewart, Vice Chair	Ralph Nagel
Judith Altenberg	Dean Quamme
Raymond Baker	William Vollbracht

Terrance Farina
David Greenberg

Judy Weaver

The Colorado Commission on Higher Education also has an advisory committee, which includes:

Senator Kenneth Arnold
Representative Kelley Daniel
Representative Keith King
Representative Nancy Spence
Senator Ron Tupa

Senator Sue Windels
W. Wayne Artis
John Buechner
Derek Johnson
Larry Strutton

Blue Ribbon staff support:

Rich Allen
John Bliss
Brian Burnett
JoAnn Evans

Jim Jacobs
Robert Moore
Bridget Mullen
Joan Ringel

The Governor's Executive Order required the panel to:

- review the state's higher education funding mechanism;
- consider means by which college participation in Colorado may be increased, by analyzing information that addresses the number of Colorado citizens enrolled in college, the quality and availability of opportunities for higher education in Colorado and the impact that current funding mechanisms have on those opportunities;
- the extent to which our citizenry is benefiting from public funding to institutions of higher education;
- the potential for allocation of additional state resources to higher education;
- to join with members of the Colorado Commission on Higher Education to amend the role and mission statement of each state institution, and
- to recommend any new initiatives to ensure the availability of resources and authority needed for the enhancement of the quality and nature of the Colorado higher education system.

The role and mission charge was completed in February 2002 with recommendations forwarded to the Governor and the General Assembly last year. This report summarizes the context in which panel members analyzed the status of higher education in the state. In addition, it recommends that Legislators dramatically change the way Colorado's higher education enterprise is funded. If these recommendations are accepted, Colorado will be the first in the nation to fund students rather than institutions.

THE CHALLENGE

Colorado: a paradox in terms of participation

Colorado is a paradox in terms of its overall educational attainment levels and the participation of its high school students in higher education immediately following graduation.

During the past two decades Colorado has been at or near the top of states with an adult population holding at least a bachelor's degree. The state's economy, natural beauty and lifestyle have served to attract highly educated people to Colorado from throughout the nation and the world. However, Colorado fares poorly in sending its own high school graduates to higher education institutions immediately following graduation. The 2002 National Report Card on Higher Education gave Colorado an "A" for the share of the population with an undergraduate degree or higher, but a "B" grade in participation. The grade for participation was an improvement over the "B-" received in 2000.

However, in the national report, *Measuring Up 2000*, Colorado placed 31st among the states with only 38% of its high school freshmen entering higher education four years later. The latest report, *Measuring Up 2002*, puts Colorado in a tie for 27th with 39% going on within four years of being high school freshmen. Panel members believe that these levels of participation do not bode well for Colorado.

The following table shows the participation rate of high school to college within four years of entering ninth grade. It shows the states with the highest participation rates as well as Colorado's peers that were picked for economic and demographic reasons.

Other measurements of participation in the report card show that Colorado is relatively low in terms of young adults 18 to 24-year-old higher education enrollees. The state is surprisingly among the highest in terms of Coloradans over age 25 participating in higher education, with nearly 5% of that age group or over 80,000 students enrolling in a public or private postsecondary institution.



High School Freshmen Enrolling in College Within Four Years in Any State

This participation measure looks at the percentage of high school freshman that enroll in any postsecondary institution within four years.

The statistic is based upon the number of students who immediately continue on to an institution of higher education after high school graduation.

Top 5 States		
Rank	State	Percent
1	North Dakota	59%
2*	Massachusetts	54%
2*	New Jersey	54%
4	Iowa	53%
5	Nebraska	52%

Colorado and Peer States		
Rank	State	Percent
6*	Illinois	48%
6*	Connecticut	48%
13*	Wisconsin	44%
21*	Minnesota	41%
27*	Colorado	39%
39	California	34%
44	Oregon	32%
47	Arizona	28%
49	Nevada	26%

* Tied

SOURCE: National Center for Public Policy and Higher Education, *Measuring Up 2002*

The following table shows the high level of educational attainment among Colorado residents. A comparison of these two tables underscores the Colorado paradox.



Population 25 Years or More With a B.A., 2000

Top 5 States		
Rank	State	Percent
1	Colorado	34.6%
2	Massachusetts	32.7%
3	Maryland	32.3%
4	Virginia	31.9%
5	Connecticut	31.6%

Colorado and Peer States		
Rank	State	Percent
1	Colorado	34.6%
5	Connecticut	31.6%
6	Minnesota	31.2%
13	California	27.5%
15	Oregon	27.2%
16	Illinois	27.1%
23	Arizona	24.6%
31	Wisconsin	23.8%
45	Nevada	19.3%

SOURCE: Bureau of the Census, December 19, 2000, via Internet

While Colorado's population increased at a rapid rate during the 1990s, student enrollment at Colorado public institutions of higher education grew substantially less. Colorado's population increase was the third fastest in the nation during the 90s, rising by over 30%, from 3,294,394 in 1990 to 4,401,261 in 2000. Perhaps most telling is that total undergraduate headcount enrollment increased from 170,814 in 1991 to 182,492 in 2001, a gain of 6.8%. Resident FTE (full-time equivalent) enrollment rose by 9.6%, from 111,977 in 1990 to 122,707 in 2000. These statistics proved to the panel that a substantial number of Coloradans are not participating in higher education and as a result our citizens are not fully benefiting from the current system nor the current funding of higher education; nor are Colorado's public institutions of higher education fully benefiting from the current funding structure.

Peer States

To place Colorado's higher education system in context, a number of factors were considered in determining peer states that would be comparable on higher education issues. These factors include: region, population size, Hispanic share of the population, per capita income and size of the public four-year postsecondary education system. The following table shows Colorado's peer states.

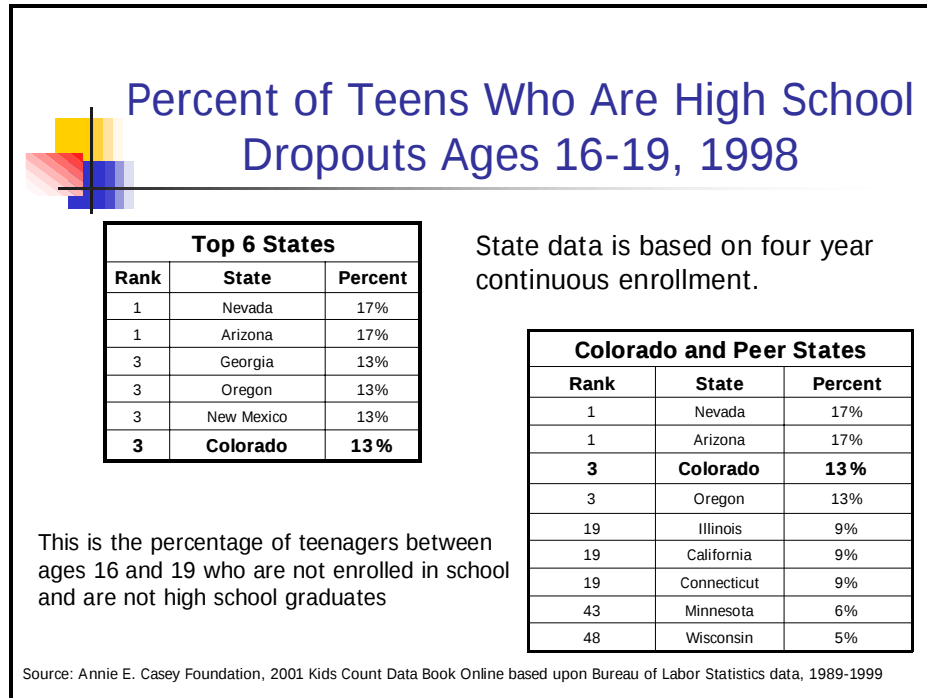


Peer States Comparison

State	Population Size, 2000 (in Millions)	Hispanic Share of Population	Per Capita Income (2000 Preliminary)	Size of Public 4-Yr Postsecondary Education System
Colorado	4.3	17.1 %	\$32,949	13
Arizona	5.1	25.3 %	\$25,578	3
California	33.9	32.4 %	\$32,275	33
Connecticut	3.4	9.4%	\$40,640	8
Illinois	12.4	12.3 %	\$32,259	12
Minnesota	4.9	2.9%	\$32,101	12
Nevada	2.0	19.7 %	\$30,529	2
Oregon	3.4	8.0%	\$28,350	8
Wisconsin	5.4	3.6%	\$28,232	12

Source: 2001 Higher Education Directory, U.S. Census Bureau, and Bureau of Economic Analysis

Participation in higher education depends in some measure on a state's number of high school graduates. The Blue Ribbon Panel therefore analyzed Colorado's high school dropout rate. They reviewed data showing Colorado and a number of other states with a high percentage of high school dropouts in 1998. The following table shows Colorado in relation to its peer states for high school dropouts.



The Blue Ribbon Panel discussed data that included the percentage of males and females 18 to 24 years of age enrolled in Colorado public higher education institutions (see following table). Between 1990 and 2000, the percentage of females enrolled rose from 23% to 29%. Non-Hispanic whites and African-Americans reported female enrollment increases and Hispanics reported no change. Although male enrollment increased slightly, from 28% to 29% over the decade, only African-American males reported increases. **Non-Hispanic white and Hispanic males recorded decreases. The relative stagnation or even decline in male college enrollment is an important issue for higher education in Colorado. Blue Ribbon Panel members focused a good deal of attention on ways to improve male participation in higher education as well as participation by low-income students.**



Colorado Population 18-24 Years Enrolled in a Colorado Public Institution of Higher Education

Ethnicity	Male		Female	
	1990	2000	1990	2000
White, Non-Hispanic	31 %	28 %	32%	34%
African-American	14%	17%	16%	22%
Hispanic	14 %	9 %	15%	15%
Total	28%	29%	23%	29%

Source: U.S. Census Bureau, CCHE

Colorado at the Millennium

To create a framework for the discussion of higher education policy and funding issues, Blue Ribbon panelists examined a variety of demographic and economic data that described many facets of Colorado in 2000. In addition, they reviewed the history of higher education funding during the past three decades. This statistical portrait served as the foundation for the panelists' discussion and recommendations.

By the turn of the 21st century, Colorado was one of the wealthiest, most highly-educated and fastest-growing states in the nation. During the 1990s, Colorado rose from 20th to among the top ten states in per capita income. For one period of time, Colorado was the only state west of the Mississippi River with that distinction. Throughout the decade, Colorado retained its first or second rank as the most highly educated population determined by the percentage of people over age 25 with a bachelor's degree. It was the third-fastest growing state (after Nevada and Arizona) between census dates 1990-2000.

A number of political factors during this decade played a significant role in how higher education fared. Colorado voters adopted a Constitutional amendment (TABOR), which was the nation's strictest (at the time) limitation on state and local government revenues and spending in 1992. The state maintained its relatively decentralized fiscal structure with significant revenues generated by local government. Nationally, state governments collected 61% of state and local taxes in fiscal year 1999 – the last year for comparable data. In Colorado, however, the state government generated 54% of combined tax receipts, one of the lowest percentage shares among the states.

For fiscal year 2001, Colorado placed 36th in per capita state government tax collections and 46th for those tax receipts per \$1,000 of personal income. The tremendous growth in personal income, up 51% in per capita terms between 1993 and 2001, combined with state government's reliance on income taxes, boosted the state's ability to generate funds.

At the same time, however, K-12 schools became more dependent upon state government revenues as a result of revisions to the Public School Finance Act. In addition, there were increasing demands for both corrections and state Medicaid expenditures.

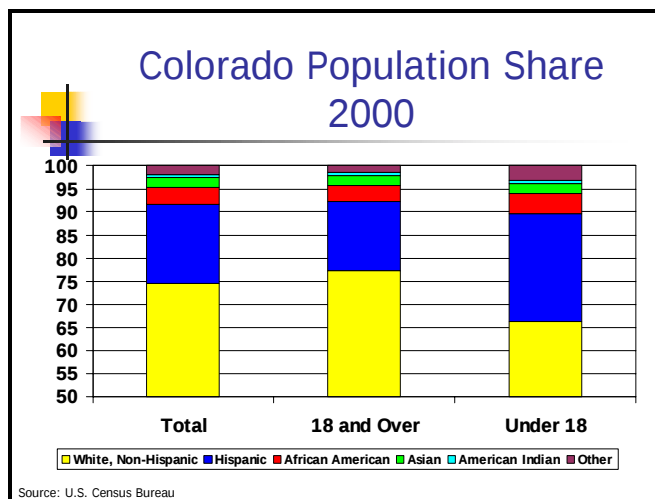
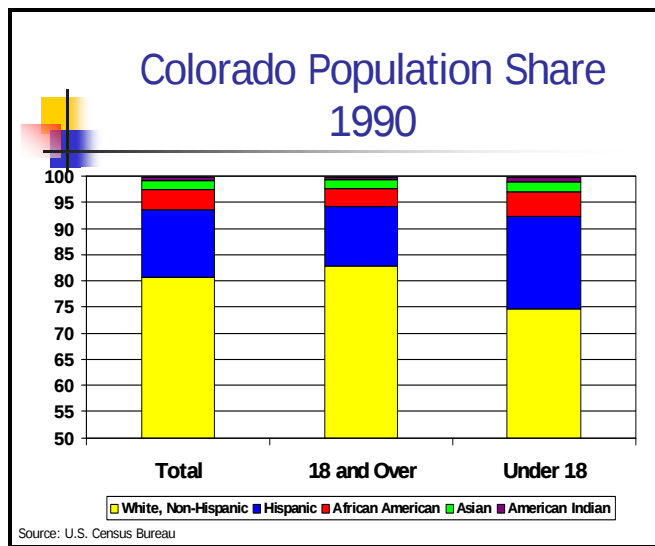
While actual dollars increased, higher education's share of the state's General Fund (GF) budget declined during this period, falling from 19% in 1991 to less than 14% in 2001. A significant reason for this decrease was the fact that public higher education enrollment was relatively flat during most of the 1990s, while Medicaid, K-12 and Corrections caseloads and mandates grew substantially during the same period. Future funding proposals for higher education will have to address the budget and fiscal realities of the state.

Demographic changes affect student population

During the 1990s, the characteristics of students attending institutions of higher education changed. The typical high school graduate going directly to college, living on campus and supported by his or her parents is no longer the norm. Many students now work, attend part-time, seek grants and incur loans. Because the non-traditional student is now more the norm, panelists focused on these new demographics.

The growth in the number of Hispanics in the state has been significant. While Colorado showed a 31% population increase during the 1990s, the state's Hispanic population grew by over 73% and its proportion in the population grew from 13% to 17%. This percentage gain was the largest among most ethnic groups. Colorado's non-Hispanic white population grew 21% during the decade. This group accounted for 81% of the state's population in 1990 and 75% in 2000. The state's non-Hispanic black population rose by nearly 24%, although the proportion of blacks in the state declined from 3.9% to 3.7%.

Colorado's non-Hispanic Asian population jumped by 64%, and its proportion of the population rose from 1.7% to 2.2% from 1990 to 2000. The state's non-Hispanic Native American population reported a gain of 31%, and its proportionate share remained the same at 0.7%. The number of Colorado children under the age of 18 grew by about 28%. Hispanic children recorded gains of about 70%. The Hispanic share of the under-18-population rose from about 18% to nearly 24%. The number of the state's non-Hispanic white children increased by 13% and their share of the state's population fell from about 75% to 66% of the under 18-year-olds. The Hispanic share of the under 18-year age group rose from 16.7% in 1980, 17.7% in 1990, to 23.5% in 2000.

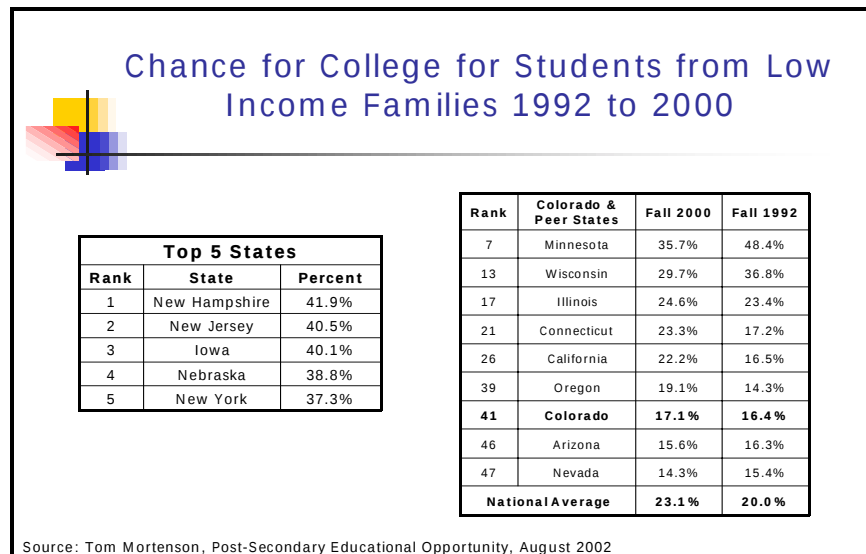


Access for low-income students weak in Colorado

Tom Mortenson, an expert in higher education policies that affect low-income students, reviewed his findings with the Blue Ribbon Panel. Mr. Mortenson pointed out that nationally over the past three decades, the percentage of students going on to higher education has risen in each of the income quartiles. The top income quartile reported little change in participation over the past 30 years, increasing its rate from 72% in 1970 to 75% in 2000. The third income quartile rose from 58% to 68% and the second income quartile jumped from 47% to 68% in participation for the period. The bottom quartile, however, reported relatively little change over 30 years, rising only from 28% in 1970 to 35% in 2000. Mortenson also described the probability for students from low-income families to attend college. Compared to other states, Colorado placed last in 1999.

The Blue Ribbon Panel learned that during the Owens' administration the state effectively has focused need-based financial aid on students from the lower-income quartiles. In addition, the General Assembly has increased total funding for financial aid and approved the Governor's Opportunity Scholarship (GOS) program. While total financial aid increased by 27% between 1999 and 2003, from \$67.2 million to \$91 million GF, need-based aid jumped by 40%, from \$34.1 million to \$51.6 million. Need-based aid includes the current \$8 million allocated for the GOS program that provides full scholarships to low-income students.

All other financial aid (including merit and work-study) rose by 14%, from \$33.1 million to \$39.5 million, during the same period. The need-based share of total financial aid increased from 33% in 1991 to 51% in 1999. Need-based funding accounts for 57% of financial aid in the fiscal year 2003 budget. As a result of these increases, Colorado improved the chance of low-income students going to college. An updated table for 2000 shows Colorado increasing its rank from 50th in 1999 to 41st in 2000 and its percentage rose from 13.7% to 17.1%.



The data nevertheless show Colorado as a state that needs to become more involved in assisting low-income students to participate in higher education at far higher rates than in the past.

As a result of the information on demographic changes and the participation rate of both high school graduates and low-income students, the panel set as its goal increased access and opportunities for Coloradans in higher education by:

- Increasing the participation/retention and graduation rates, particularly of those in the bottom income quartile
- Encouraging participation of currently under-represented groups
- Increasing participation of recent high school graduates

Tuition and price sensitivity

Any examination of higher education funding must include analysis of tuition levels. In a report entitled, “Tuition Pricing and Higher Education Participation in Colorado”, Dr. Donald Heller noted that higher prices lead to lower enrollment. The data show that a \$100 tuition increase produces a public enrollment drop of one to two percentage points. The Heller study showed that a \$205 increase at four-year institutions would be associated with an enrollment drop of 0.5%, and a \$184 increase in community college tuition would be associated with a 2.3% drop in enrollment at community colleges. While the Heller report did not speak to the effect of lowering tuition, it seems apparent, therefore, a \$400 reduction in community college tuition could translate into a 4%+ increase in enrollment at those institutions, assuming a converse relationship between tuition reductions and enrollment increases.

Tuition reductions at some institutions could also result in students choosing less-expensive institutions for their first two years. According to Dr. Heller, tuition is more powerful than financial aid in influencing enrollment. Lower-income students are more price sensitive, and enrollment in community colleges is also more price sensitive.

Dr. Heller notes that there is clear evidence of same-sector price responsiveness between types of institutions. This responsiveness is the difference between the four-year and the two-year sectors. Price increases at four-year institutions may lead to increases in community college enrollments and vice versa. **In interpreting Dr. Heller’s research, significant reductions in tuition at the community colleges could lead to increased access and participation by students who had previously not considered higher education as a possibility.** However, price is only one of a number of factors involved in a student’s choice to attend college.*

Colorado tuition comparisons with other states

Tuition can provide a balance between access and participation on the one hand, and new programs and quality on the other. Obviously, low tuition can encourage greater access to higher education, especially for low-income students. At the same time, new programs in science and health care can be very expensive. Panel members came to understand the need to strike a balance between access and the continued commitment to quality. The following

*The Heller report states: other factors, when taken together, tend to play a much more important role in influencing college enrollment behavior. These factors include: the student’s academic aptitude and achievement; course-taking patterns in high school and earlier grades; the role of parents, sibling, peers, and other in promoting college as a post-high school option; proximity of postsecondary education institutions; and economic conditions such as the status of the local economy and labor markets.

charts contain data derived from the Washington State Coordinating Board. It should be noted that other national studies indicate that Colorado community college tuition may not be as high relative to other states and the flagship university and state colleges may not be as high comparatively. However, they do maintain the same relationship to the research and comprehensive institutions.

National comparative data show that Colorado placed 34th in tuition and fees at its flagship university, 38th for its comprehensive colleges and state universities and 18th for its community colleges. (First place would be the state with the highest combination of tuition and fees.) Colorado exceeded the national average for community colleges and fell behind for the other institutions. Colorado was next-to-the-last among the peer states in its flagship university undergraduate resident tuition and fees.

Colorado posted the smallest tuition growth rate among the peers during the decade, as its rate of increase was less than one-half of the national average. Colorado's flagship tuition and fees were \$5,100 lower than the highest state (Vermont), \$1,706 lower than the 11th ranked state (Illinois), and \$812 below the national average. This slow rate of growth can be attributed to the tuition buy-downs enacted by the General Assembly and new limitations imposed by TABOR.

 Undergraduate Resident Tuition & Fees Community Colleges				
Community Colleges				
In FY 2001, average tuition & required fees at Colorado's community colleges exceeds the national average by nearly \$200.				
Top 5 States				
Rank	State	Amount		
1	New Hampshire	\$4,144		
2	Vermont	\$2,898		
3	Iowa	\$2,720		
4	New York	\$2,602		
5	Indiana	\$2,504		
Rank	Colorado & Peer States	FY 2001	FY 1991	% Change
6	Minnesota	\$2,472	\$1,474	67.7%
7	Wisconsin	\$2,453	\$1,410	74.0%
18	Colorado	\$1,920	\$1,060	81.1%
19	Connecticut	\$1,886	\$934	101.9%
20	Oregon	\$1,828	\$801	128.2%
28	Illinois	\$1,507	\$898	67.8%
39	Nevada	\$1,275	\$720	77.1%
46	Arizona	\$903	\$553	63.3%
49	California	\$330	\$100	230.0%
National Average		\$1,729	\$947	82.6%
Source: Washington State Coordinating Board, 2000-2001 Tuition and Fee Rates, A National Comparison				

Colorado placed 4th lowest among peer states in tuition and fees for comprehensive colleges and state universities. Its growth rate was next to the bottom among the peers. Colorado's comprehensive college and state university average tuition rate was \$3,174 lower than the highest state (New Jersey), \$1,555 lower than the 10th ranked state (Connecticut), and \$815 below the national average.

Colorado placed 3rd highest among its peer states for community college tuition and fees. Its growth rate surpassed five of the peers and nearly matched the national increase in community college average resident tuition. The state's average community college tuition and fees exceeded the national average by \$191.

Undergraduate Resident Tuition & Fees Flagship Universities



This study identifies the University of Colorado – Boulder as the state's flagship university.

In FY 2001, tuition and fees at the state's flagship university trailed the national average by \$812.

Top 5 States		
Rank	State	Amount
1	Vermont	\$8,288
2	New Hampshire	\$7,395
3	Pennsylvania	\$6,852
4	Michigan	\$6,513
5	New Jersey	\$6,333

Flagship University

Rank	Colorado & Peer States	FY 2001	FY 1991	% Change
6	Connecticut	\$5,596	\$2,974	88.2%
11	Illinois	\$4,994	\$2,990	67.0%
12	Minnesota	\$4,877	\$2,728	78.8%
19	California	\$4,046	\$1,999	102.4%
21	Oregon	\$3,819	\$1,965	94.4%
24	Wisconsin	\$3,788	\$2,107	79.8%
26	Nevada	\$3,465	\$1,380	151.1%
34	Colorado	\$3,188	\$2,256	41.3%
49	Arizona	\$2,344	\$1,540	52.2%
National Average		\$4,000	\$2,156	85.5%

Source: Washington State Coordinating Board, 2000-2001 Tuition and Fee Rates, A National Comparison



Undergraduate Resident Tuition & Fees Comprehensive Colleges & State Universities

Resident tuition and fees at ASC, CSU, FLC, MSCD, UNC and WSC were averaged in the study's annual tuition and fee report to determine average tuition and fees at Colorado's comprehensive colleges and state universities.

In FY 2001, average tuition & required fees at Colorado's comprehensive colleges & state universities trailed the national average by \$815.

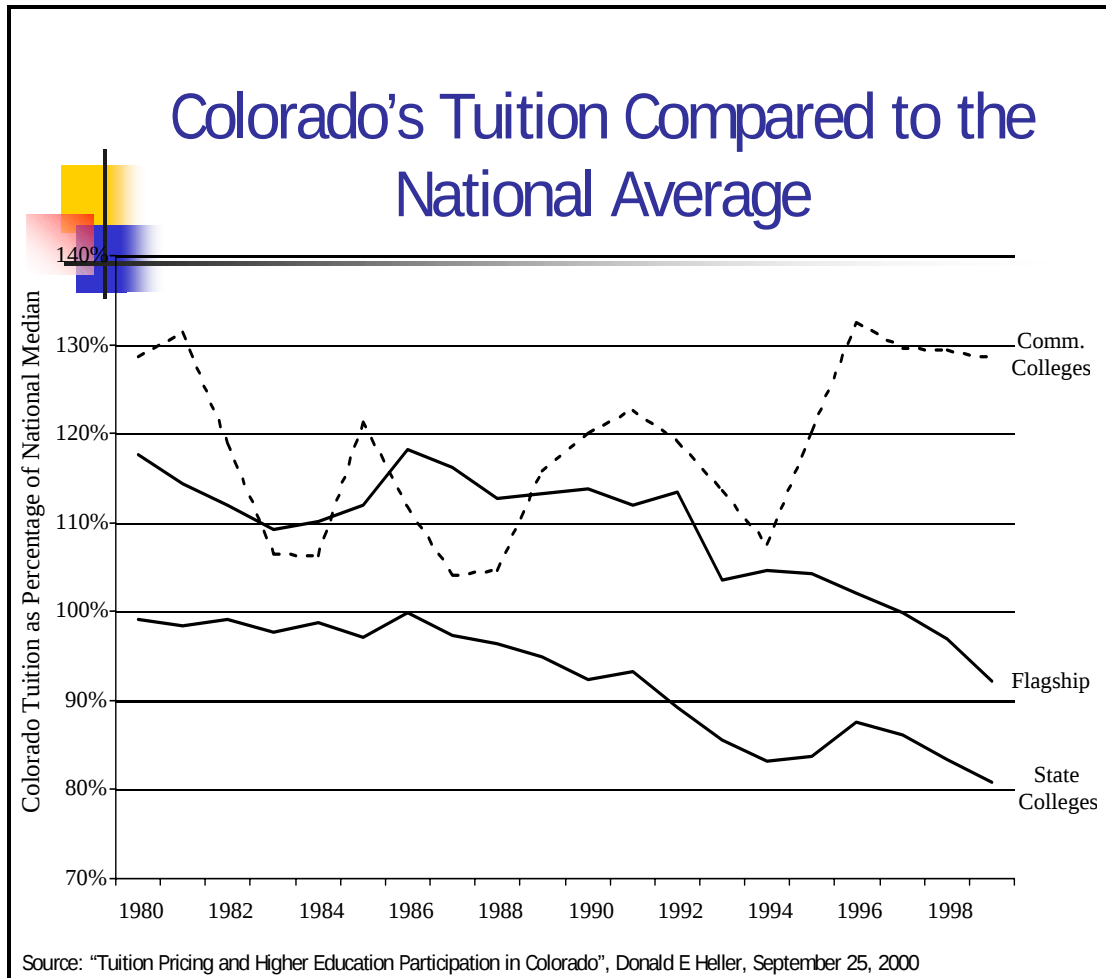
Top 5 States		
Rank	State	Amount
1	New Jersey	\$5,328
2	New Hampshire	\$5,309
3	Vermont	\$4,944
4	Pennsylvania	\$4,695
5	Ohio	\$4,674

Comprehensive Colleges and State Universities

Rank	Colorado & Peer States	FY 2001	FY 1991	% Change
9	Illinois	\$4,002	\$2,217	80.5%
10	Connecticut	\$3,908	\$1,802	116.9%
15	Oregon	\$3,435	\$1,849	85.8%
19	Minnesota	\$3,238	\$1,889	71.4%
22	Wisconsin	\$3,058	\$1,829	67.2%
38	Colorado	\$2,353	\$1,509	55.9%
40	Arizona	\$2,344	\$1,540	52.2%
41	Nevada	\$2,220	\$1,380	60.9%
46	California	\$1,859	\$929	100.1%
National Average		\$3,168	\$1,735	82.6%

Source: Washington State Coordinating Board, 2000-2001 Tuition and Fee Rates, A National Comparison

During the 1990s, Colorado's flagship university reported a downward tuition line, relative to the national average. State colleges have recorded the same trend since the middle of the decade. Community college tuition jumped at the beginning of the decade and fell slightly for the next few years. That same trend held true for tuition and fees as a percentage of household income. Over the 30-year period, Colorado state colleges reported tuition below the national median in every year. On the other hand, the state's community college tuition surpassed the national median every year, even at 30% above the national rate for a number of years. Colorado's flagship tuition dropped below the national median during the middle years of the 1990s. A variety of studies show Colorado in different relative positions; they all, however, point to community college tuition as relatively higher than tuition at four-year colleges. **Colorado's relatively high community college tuition has made it more difficult for low-income students to consider higher education.** However, increased financial aid, especially GOS, has helped to somewhat mitigate that problem.



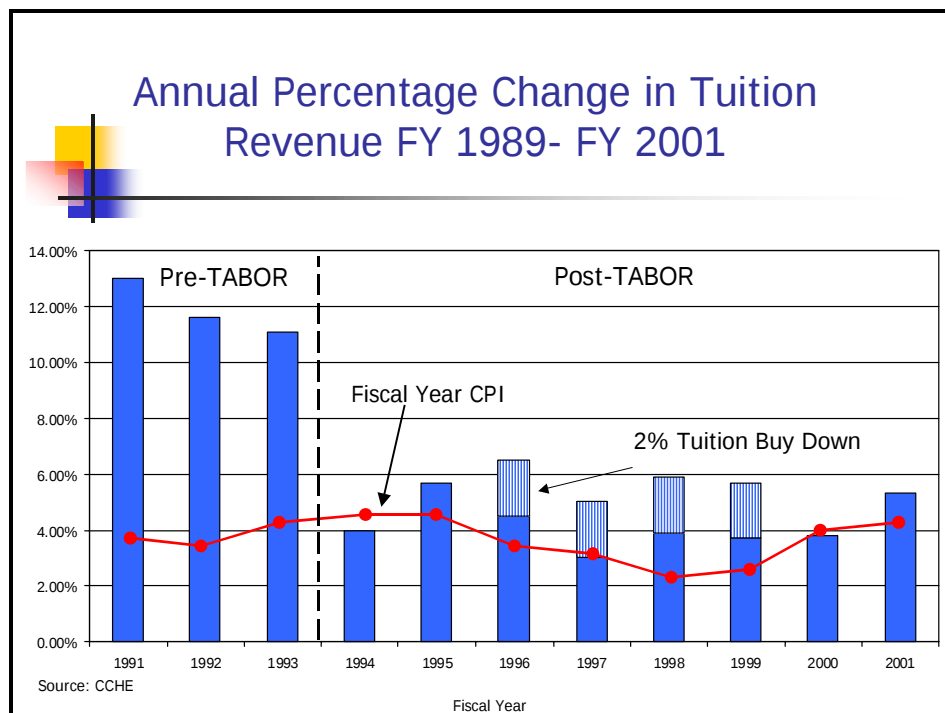
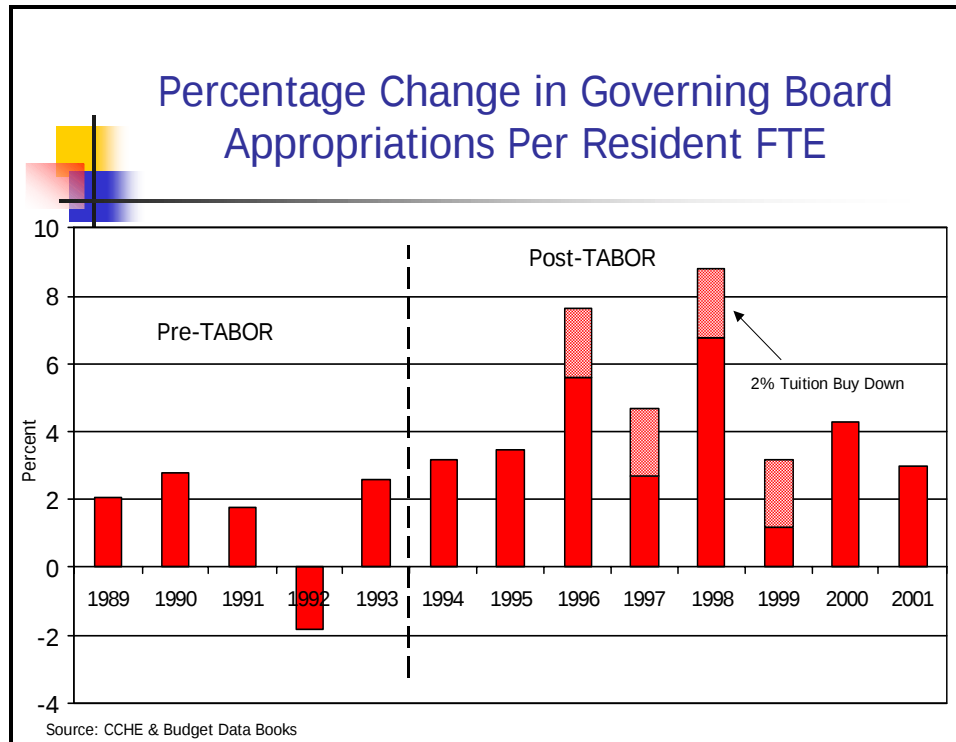
* see page 10 footnote

These tuition trends influenced the Blue Ribbon Panel to consider lowering community college tuition and providing tuition flexibility to other institutions if QIS standards are met.

The citizens of Colorado adopted the Taxpayers' Bill of Rights (TABOR) as part of the state constitution in 1992. TABOR restricts state government spending to the increase in population and inflation during the previous year. Since the adoption of the TABOR amendment, the General Assembly has sought to tie tuition increases to the rate of inflation. Between FY 1994 and FY 2002, resident undergraduate tuition increased by 23.8% and Colorado's inflation rate (CPI) rose by 32.7%. During fiscal years 1996 through 1999, the General Assembly provided a tuition buy-down of 2% each year. The buy-down means that the General Assembly provided greater GF appropriations to higher education so that tuition increases would be lower than inflation, and that increased state general fund support to the governing boards allowed them to make up the difference in reduced tuition income.

State GF appropriations to the governing boards rose at a higher rate in the post-TABOR (after 1994) period. This increase includes the four years of the tuition buy-down. Tuition revenue, however, rose at a higher rate during the pre-TABOR period. The following

charts illustrate general fund support to the governing boards and the annual percentage change in tuition revenue.



The effect of TABOR on higher education

TABOR became part of the state's Constitution in 1992. Legislation that implemented TABOR at the state level (SB93-74) declared that tuition paid to higher education institutions would be considered part of the overall state revenue limit. Thus, the General Assembly has to take tuition into consideration in conjunction with all of the other activities of state government. When higher education tuition revenue increases, the state would have to reduce revenue in other areas during a year when state revenues would be in excess of TABOR limits. The state was in an excess TABOR position between fiscal years 1997 through 2001.

Another effect on higher education is the state's general fund limit. Prior to the constitutional amendment, legislators enacted a 6% limit on the growth of the state's general fund operating expenditures. The TABOR amendment made permanent the existing 6% statutory restriction in the Constitution, thus any change would require voter approval. Funds in excess of the 6% general fund spending limit and lower than the TABOR revenue limit may, however, be spent on capital construction projects. Between FY 1992 and FY 2002, higher education received 41% of the estimated \$2.7 billion state capital construction and controlled maintenance funds. The TABOR amendment - with the inclusion of tuition revenues - coupled with the 6% general fund limit, has complicated higher education funding options for the legislature, the Commission and for governing boards.

With the inclusion of tuition revenue as part of the statewide revenue base, the relatively small differences in tuition rates between research universities, comprehensive universities, state colleges and community colleges were maintained during the past decade. TABOR does allow some flexibility for governmental entities: federal funds, gifts, reserve transfers and enterprise activities. An enterprise is defined as a government-owned business with bonding authority that receives less than 10% of its funding from state and local government revenues. This enterprise status could become significant for higher education in the state if the Blue Ribbon Panel recommendations are enacted into law.

Six funding concepts presented to the Blue Ribbon Panel

After the Blue Ribbon Panel reviewed demographic and financial data, it analyzed a number of funding options for its consideration.

- An updated version of the Re-exam of the base concept:
 - The current Re-exam is a complex model that provided for differentiation in funding based on institutional mission.
 - The new proposal would focus on general fund and a specified number of factors, such as: graduate/undergraduate mix; special missions; high demand/cost; research; rural access; and physical plant.

- A centralized financial aid system:
 - Elements of this system included: a centralized system which could assure standardized allocations based on need;
 - Need-based financial aid packages determined by the ability to pay;
 - Merit-aid based on index scores;
 - Funds could be allocated to student in state-identified fields;
 - State financial aid, together with general funds could be allocated to students.
- Allocate state general funds to students not institutions:
 - Educational savings accounts could be flat, modified for specified institutions or modified for financial aid purposes.
 - Savings accounts would shift emphasis from funding institutions to funding students.
 - This funding scenario would provide for a flat amount per student with hold harmless provisions for institutions receiving less tuition.
- Performance funding system:
 - Expand present indicators that could include graduation and retention rates, faculty productivity, academic quality, administrative costs and other areas.
- Enhanced graduate education:
 - Graduate programs are offered at ten institutions. Graduate enrollments, however, have declined during the past five years. This model created a separate graduate funding system.
- Capital construction funding:
 - Under this system each student would be assessed a facility fee to create a revenue stream to support higher education facilities.

Focus groups examine student educational savings accounts

While members of the Blue Ribbon Panel worked to refine the concept of providing state funding for higher education directly to students, a national marketing firm, Sterling Rice Group, tested the concept with high school students and parents. The Sterling Rice Group conducted focus groups for juniors and seniors in high school whose families had incomes less than \$60,000 with the goal of assessing interest in the proposed funding mechanism. The target audiences were low-to-moderate income students and parents, Hispanic students and parents, and male students and parents.

Several themes evolved from these groups:

- they expressed hope and enthusiasm for the new concept.
- even knowing that higher education would be receiving the same amount of state support under the current system, most participants believe that money going to students would be a motivator.
- parents and students who never before believed that college was possible left the focus groups believing that they would and could really consider going to college.
- the weakest link in higher education access is high school counseling—low-income students do not talk to counselors about continuing their education.
- money is a key barrier to going on to further education, but fear and peer pressure play a role.
- participants believed that a more market-like approach would make the institutions more responsive to them.

One of the high school juniors suggested that the state write a letter to freshmen telling them that if they complete high school, the state will establish a savings account in their name to be used at a Colorado public higher education institution. When participants thought about receiving such a letter, some of their comments were very moving: “My kids could have a better life than I do.” “I would have the feeling that someone cares about me.” “It could make high school count for more.” “It helps working kids have a target to work for.”

Both students and parents, for the most part, had little knowledge of higher education funding. While most groups understood that tax revenue supported institutions, few knew the extent of state funding totaling nearly \$800 million or about \$4,000 on average per resident student. The amount of state subsidy was a revelation to these participants and encouraged many to consider higher education as a part of their future. The focus groups underscored that there is great interest in changing the way higher education in Colorado is funded. In addition, participants assisted panel members and staff with specific recommendations about how to communicate with the several groups the savings account concept is designed to reach.

RECOMMENDATIONS

The Blue Ribbon Panel decided to pursue the student educational savings account concept. This concept of funding students would be a significant change from the existing allocation formula that appropriates state funding to institutions through their governing boards. This section of the report outlines the recommended funding concept in detail.

Definition

Instead of appropriating state general fund support to institutions, this concept would establish a system of directly funding students. If funds were given to students in the form of

educational savings accounts, the students' purchasing power would ultimately determine the future viability of institutions. Institutions would operate under more of an entrepreneurial model. While the state government (CCHE) would still establish broad-based policies and set basic criteria for eligibility for both institutions and students, operational oversight could be avoided if a real student-centered model were to exist. The Commission would provide objective consumer information (graduation and retention rates, tuition and costs) so students could make informed comparisons in deciding which institution(s) to consider.

Elements

This system would provide specific educational savings accounts to undergraduate and master's degree seeking students. Variations in these educational savings accounts could serve to increase tuition revenue to a given institution. Changes could also be phased-in over time. To provide greater access for lower-income students, the state could dramatically increase its need-based aid support.

Background

Colorado has had exposure to a potential educational savings account system. In 1996, House Bill 96-1295 was introduced in the legislature that would have distributed general fund higher education appropriations as tuition credits to qualified students based on annual income. The tuition credits were need-based, with a greater percentage of the funds going to lower-income students. The tuition credits would have varied by the costs of different kinds of institutions. Credits would have been adjusted to reflect full and part-time status of each student. The bill did not pass.

TABOR Implications

The creation of such an educational savings account-type system by directly funding students could exempt some higher education governing boards from some TABOR restrictions. TABOR requires that a governmental entity receive 10% or less of its support from state or local government to achieve enterprise status. State statutes would have to be changed to exempt student tuition from TABOR restrictions. Tuition could then be considered a type of user-fee, reflecting the cost of the service.

The new model could:

- Shift power within higher education from institutions to students.
- Introduce competition into Colorado higher education to enhance quality for both students and institutions.
- Exempt parts of higher education from TABOR restrictions.
- Increase access by lower-income students.
- Allow for greater flexibility by institutions as they work to respond to more market-driven forces.

Blue Ribbon Panel Recommendations

The following lists the recommendations adopted by the Blue Ribbon Panel:

Recommendation: The Blue Ribbon Panel recommends that the Governor and General Assembly consider the creation of educational savings accounts for all Colorado residents attending Colorado public institutions with the following assumptions:

- Undergraduate stipend of \$4,000 per year or \$133 per credit hour
- Graduate I (Master's Level) stipend of \$8,000 per year or \$267 per credit hour
- Tuition increase of up to 5% for four-year institutions for implementation of the model over and above any other allowed tuition increases
- Community college tuition reduction of 25%
- State financial aid will likely increase to four-year institutions as a result of the net price decrease to two-year institutions
- Role and Mission block grant for:
 - Graduate II (Ph.D.) FTE
 - University of Colorado Health Sciences Center
 - Colorado State University Professional Veterinary Medicine program
 - Colorado State University agencies
 - Colorado School of Mines charter-status funding
 - Base funding for Adams State, Mesa State and Western State

All educational savings accounts are equal in value and fixed at a specified amount, based upon credit hours. The educational savings account is capped at 140 credit hours for undergraduates and 60 credit hours for master's level graduate students.

- The Quality Indicator System (QIS) be maintained with benchmarks on retention and graduation. Institutions achieving these benchmarks would be granted tuition flexibility or other flexibility.
- The Colorado Commission on Higher Education and the Colorado Department of Education develop a report regarding funding of remedial courses at the college level and vocational technical level.

Elements of the funding model

Calculated upon the 2001 fiscal year base, the educational savings account would equal \$133 per credit hour or \$4,000 per year ($\$4,000/30$ credit hours = \$133 per hour) for full-time resident undergraduates. The 140 credit hour cap would allow up to \$18,667 for each educational savings account. Part-time students would be able to draw on this account until they graduate or reach the 140 credit hour limit. Since it is not based upon time limitations, it will accommodate both full-time and part-time students. Students that exceed the credit hour limit would pay the actual cost, which will be significantly less than out-of-state tuition. The graduate student accounts are calculated at \$8,000 per year or \$267 for each credit hour ($\$8,000/30$ credit hours = \$267 per credit hour). Again, students exceeding the 60-hour limit would pay the general fund support plus tuition for additional hours.

This model reduces community college tuition by 25%. Blue Ribbon Panel members believe this reduction will be important in attracting additional low-income students to higher education in the state. While there are many factors on which a student selects a given institution, price is very important for students from the lowest income quartile. The Community College System reports that full-time resident students paid approximately 35% of total instructional costs in 2002. The proposed reduction in tuition will bring Colorado community college tuition in line with the national average of tuition and account for 25% of instructional costs.

A role and mission block grant is created to take into consideration differences in role and mission that affect costs. For example, payments are included for such activities at the University of Colorado's Health Sciences Center, the Veterinary school and agencies at Colorado State University and doctoral graduate education.

CONCLUSION

Preparing Colorado for the 21st Century

The goals of the Blue Ribbon Panel are lofty. Increasing access for low-income students, participation for all students and providing greater tuition flexibility for some institutions can help to ensure that Colorado remains a competitive state during this next century. As the industrial revolution took hold in the late 18th Century, those nations willing and able to adopt the new technology experienced a transformation in not only an economic sense, but also in terms of enhanced social and intellectual qualities. The information age and its human-capital based structures demand continuous learning. As the sufficiency of a high school diploma has declined, the necessity of some type of postsecondary education for all citizens becomes apparent. That does not mean that everybody must have a baccalaureate degree; but that all do have access to a postsecondary experience, either in the form of certificates, associate degrees or course-work relevant to work and/or personal enrichment.

Colorado has become one of the wealthiest states during the past half century, as its per capita income rose from 21st for both 1931 and 1941 to 7th for 2001. This transformation was due in no small measure to the educated population that was either born or chose

to live in this state. To continue the quality of life that Coloradans demand, educational opportunities must be maintained and improved.

The educational savings account can serve to increase access and participation in higher education of all kinds for Colorado residents. The creation of a more market-driven approach can also serve to improve quality at the state's higher education institutions. At the same time, world-class research institutions will require additional financial resources. If the educational savings account allows for greater tuition flexibility for the research universities, they may be more able to thrive in an increasingly international, competitive environment. This new idea may prove to energize Colorado's citizens as they meet the demands of the new knowledge-based world.