The following documents are attached below:

Higher Education Performance Funding Memo (January 28, 2014)
Higher Education Budget Briefing (December 3, 2013)

MEMORANDUM

TO: Joint Budget Committee

FROM: Amanda Bickel, Joint Budget Committee staff

SUBJECT: Update on Higher Education Performance Funding

DATE: January 28, 2014

On December 5, 2013 the Colorado Commission on Higher Education (CCHE) reviewed and approved plans regarding how performance funding structure authorized in S.B. 11-052 would be associated with institutional performance contracts. Because this submission was not publicly available prior to staff's higher education budget briefing, staff recommended that, once the plan was available:

> "The Joint Budget Committee and the Education Committees should consider whether the proposed funding scheme appears likely to meet desired goals, request that the Department make changes if necessary, and consider changing the triggers so that implementation can begin as early as FY 2015-16."

After reviewing this submission, staff has significant concerns about the Department's proposal. Staff is troubled by the large number of different metrics used: each institution is using metrics that are largely unique. As a result, **staff is dubious that the proposed performance system can provide a fair basis for comparing institutional performance or serve as a reasonable basis for funding.**

- Staff counts 71 discrete measures being used among 16 governing boards.
- CCHE offered 23 common indicators, but institutions could choose among them and were not required to use more than two (of their choice).
- Of measures in use, 52 are institution-developed. Some common indicators are only used by one governing board.

Essentially, each institution has been allowed to choose its own test. If the system is allowed to proceed as currently anticipated, each institution's performance on its individualized test will then be compared to the performance of other institutions on their individualized tests. Institutions that do better on their personalized test will receive a larger share of total performance funding than those that do worse. *Under this system, institutions may be rewarded primarily for their skills at <u>selecting</u> metrics.* Those that chose poorly will suffer; those that chose well will benefit.

> <u>Metric Example</u>: The Colorado School of Mines will have at least 90 percent of bachelor degrees awarded in the Science, Technology, Math and Engineering areas. This represents 10 percent of its performance calculation. Is there any risk that it will fail this measure?

This approach is unique to Colorado, insofar as staff has been able to determine. Other states that have sought to implement performance funding have worked with institutions to identify a limited number of metrics (5-10) that apply to all institutions in a particular class (research, regional 4-year, 2 year). Although the weight of specific metrics may vary by institution and there is always some customization for differences across institutions, *no other state appears to have allowed each institution to pick all of its own metrics*.

The Department's submission (attached) diplomatically describes the challenges and opportunities of the new system as follows:

Challenges

- As currently envisioned, the potential amount of performance funding would be relatively low and raised the question whether the amount of funds will be incentive enough to create a long-term change in behavior.
- The balance mentioned above between flexibility (tailored metrics) and the need for meaningful statewide comparisons makes a very intricate and complicated allocation tool, which can be viewed as less transparent and difficult to explain to constituents.
- Defining measurements *consistently* is a challenge due to the high number of metrics and individual means of measuring the data. Completing a model that applies the measurements consistently is vital as consistent input is needed for fair outputs.
- There is potential for a perception of weak or insignificant performance contracts where governing boards vary significantly in setting goals and metrics.
- Funding levels adequate to trigger performance funding may not be realistic for several years.

Opportunities

- Many institutions have self-selected and weighted challenging, meaningful indicators that align with the primary goals of the Master Plan;
- The Master Plan and contracts were built collaboratively with institutional input at every stage of the process which is a necessary component for sustained success;
- This system and approach will generate years of meaningful, relevant measurement data that is not currently collected regardless of how quickly the State is able to return to performance funding levels;
- The current approach provides opportunity for the institutions to gauge performance against initially selected indicators and make any necessary or desired changes;
- Likewise, there is an opportunity for the CCHE to work with the governing boards and institutions to evaluate the performance contracts and indicators to ensure the optimal alignment with the goals of the Master Plan.

Staff is aware that there has been extensive work by Department and institutional staff on the performance contracts and metrics submitted thus far and that changing course at this time may be difficult. Nonetheless, in staff's opinion the approach will need to be substantially changed if the General Assembly hopes to use this data to compare institutional performance or to provide a basis for funding the institutions.

Committee Options:

- The Committee should consider carrying legislation—or recommending legislation to the Education Committees—to modify S.B. 11-052. For example, statutory change could require CCHE, in consultation with the institutions and nationally-recognized experts, to develop a more limited collection of performance metrics (e.g., no more than 10) to be used for performance funding. Such legislation could require the Department to apply current best-practice principles in developing and implementing such a system, such as rewarding success in serving underrepresented populations and more effectively balancing the need for common measures with unique institutional characteristics (e.g., by allowing measures to be both common to institutions and differently weighted for different institutions.)

  This would also provide an opportunity to require performance measures in areas of specific interest to Committee members (e.g., tuition levels, post-college employment, academic rigor), though staff would caution that some performance areas are very hard to measure and staff generally believes the number of measures should be reduced, rather than expanded.

- If the Committees are not interested in pursuing legislation at this time, staff recommends a letter be sent to CCHE, as well as the Education Committees, highlighting concerns and asking the Department to work with the National Center for Higher Education Management Statistics (NCHEMS; its current contractor) and the institutions to substantially narrow the number of indicators used for performance funding. The Committee should request a prompt response (so that it can decide whether to pursue legislation). If the Department is receptive to instituting changes, the Committee should request regular updates identifying the measures to be used, baseline data, etc.

- Because of staff's concerns about current metrics, the JBC and Education Committees should consider repealing those portions of statute that *require* a certain level of performance funding *and those that restrict the amounts*. Currently, statute requires that in FY 2016-17 or when institutional funding is restored to $706 million (whichever is later) 25 percent of funding over $650 million shall be directed to performance funding. This would amount to about $14 million (at $706 million) or about 2 percent of total funding. A strong performance system should direct a larger share of funding to performance; a weak one should not include any funding for this purposes. The General Assembly should restore its own flexibility in determining performance funding amounts.

Additional Background and Resources

Key Provisions of S.B. 11-052 (Section 23-1-108, C.R.S.):

- By Sept. 1, 2012: CCHE to submit higher education Master Plan

- By Dec. 1, 2012: ensure Master Plan is implemented through renegotiated performance contracts with the institutions.

- By Dec. 1, 2013: create a performance-based funding plan to appropriate to each governing board a performance funding amount based on each institution's success in meeting performance contract goals. Recommend needed statutory changes.

- FY 2016-17: First year in which performance funding may implemented. Only occurs if governing board funding restored to at least $706 million, in which case performance funding would be 25 percent of amount over $650 million. If the Governor's FY 2014-15 budget request is approved, over $103 million will still need to be added to hit the $706 million trigger.

NCHEMS: The National Center for Higher Education Management Systems (NCHEMS), with which the State is currently contracting for assistance on this project, released a report with Complete College America in October 2013. It includes a list of seventeen design and implementation principles for performance systems and describes the status of efforts in other states. The majority of states are pursuing performance/outcomes-based funding to some degree. The entire report is relatively brief and can be reviewed at the attached link:
http://www.insidehighered.com/sites/default/server_files/files/Outcomes-Based%20Funding%20Report%20(Final).pdf

NCSL: The National Conference of State Legislatures (NCSL) provides a less-detailed overview of performance-based funding in the states with design recommendations. http://www.ncsl.org/research/education/performance-funding.aspx

Staff Budget Briefing: The staff higher education budget briefing, dated December 3, 2013, http://www.tornado.state.co.us/gov_dir/leg_dir/jbc/2013-14/hedbrf.pdf
Includes additional background information, including:

- History of performance metrics in Colorado--the Quality Indicator System (H.B. 96-1219) and the performance measurement system (S.B. 04-189)—and responses to these systems.

- Description of the Tennessee system. Tennessee distributes almost all state higher education funding through a carefully designed outcomes-based system.

RECOMMENDATION FOR A PERFORMANCE FUNDING ALLOCATION PLAN TO THE JOINT EDUCATION COMMITTEE

DECEMBER 2013

1560 Broadway, Suite 1600 • Denver, Colorado 80204 • (303) 866-2723
LT. GOVERNOR JOSEPH GARCIA, EXECUTIVE DIRECTOR

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Introduction

Senate Bill 11-052, signed into law in May 2011, charges the Colorado Commission on Higher Education (CCHE) with preparing a statewide master plan, developing and executing revised performance contracts for all public colleges and universities in the state, and developing a performance funding system for higher education in Colorado. The Master plan, *Colorado Competes, a Completion Agenda for Higher Education*, was issued in October 2012. The plan identifies four goals that address areas of critical concern to the state: (1) increasing credential attainment; (2) improving student success; (3) reducing gaps; and (4) restoring fiscal balance. Performance contracts, negotiated with each public institution's governing board, lay out specific metrics against which each institution's performance toward meeting the goals is measured.

With the completion of the Master Plan and the performance contracts, the CCHE and institutions now have agreement on top priorities for the state for our system of public higher education. Beginning in 2016-17 and for each year that state funding for higher education is at or above $706 million, 25 percent of the amount over $650 million will be appropriated based on each institution's performance.

As part of the requirements of S.B. 11-052, the CCHE is charged with developing a plan by which it will recommend to the Joint Education Committee a mechanism for delivering each institution's portion of the performance funding. Specifically, the performance-based funding plan, ". . .shall ensure that the performance-based funding plan distributes the performance funding amount on the basis of an institution's performance in meeting the negotiated goals and expectations specified in its performance contract. . . . 23-1-108 (1.9) C.R.S. The plan must also address the manner in which the appropriation of performance-based funding will affect the college opportunity fund stipends and fee-for-service contracts. Finally, the commission is required to recommend to the education committees in the General Assembly any statutory changes necessary to implement the performance-based funding plan.

This document contains the plan by which the CCHE will determine its recommendation for performance funding allocation to institutions. In addition to a short background section below, the plan consists of three key elements:

1) Common Principles to which the CCHE, the Colorado Department of Higher Education (the Department) and Institutions agreed that form the basis of the funding plan;

2) A description and example of the process by which performance (as measured against metrics) would be aligned with performance funding; and

3) A recommendation for integrating a performance funding mechanism into the existing College Opportunity Fund (COF) allocation methodology (including potential statutory changes). These sections are followed by a brief discussion about future challenges and opportunities and next steps for implementing higher education performance funding in Colorado.

Definitions:

The following terms are used in this document:

Performance Contracts are negotiated agreements between the CCHE and governing boards of public institutions of higher education representing institution-specific approaches to improving performance under each of the four statewide goals.

Performance Indicators or Metrics are a set of quantifiable measures by which the CCHE and each institution have agreed to gauge the performance of the institution in meeting goals.

Performance Funding Allocation Model is the tool by which the institutions performance metrics will be evaluated and funding distributed based upon numerous decision points and formulas.

Linear Measurement is the sequential measuring of the performance funding metrics progressing in incremental steps. For example, the linear measurement of graduations rates could be a 1 percent change based on a 0 to 100 scale.

Stepwise Binary Measurement is the measuring of the performance funding metrics in quarterly steps based upon a yes/no attainment of the goal. For example, the stepwise binary measurement of *maintaining* graduations rates could be a yes but at 75% of the goal.

Background

The CCHE and the Department of Higher Education have pursued a thorough and inclusive approach to developing this plan. Reflecting the processes used for the Master Plan and for the performance contracts, the CCHE and Department staff held numerous meetings with higher education representatives and other stakeholders to gather input and solicit feedback.

Department staff contracted with the National Center for Higher Education Management Systems (NCHEMS) to assist in analyzing plans from other states and preparing a preliminary funding allocation model for Colorado. The Department then hosted a two-day meeting in May, 2013 with chief financial officers and other finance staff from the public higher education institutions. The discussion at that meeting led to the basic principles behind this plan and the performance funding allocation model. The Department has also provided updates to institution presidents throughout the process and incorporated their feedback.

The Four Statewide Goals

The Master Plan contains four statewide goals which form the foundation for the performance contracts and for the funding allocation model. The four performance goals contained in the master plan are as follows:

- Increase the attainment of high-quality postsecondary credentials across the academic disciplines and throughout Colorado by at least 1,000 new certificates and degrees each year to meet anticipated workforce demands by 2025.

- Improve student success through better outcomes in basic skills education, enhanced student support services and reduced average time to credential for all students.

- Enhance access to, and through, postsecondary education to ensure that the system reflects the changing demographics of the state while reducing attainment gaps among students from underserved communities.

- Develop resources, through increases in state funding that will allow public institutions of higher education to meet projected enrollment demands while promoting affordability, accessibility and efficiency.

Institutional Metrics

While the four performance goals are intended to address areas of statewide concern, each public institution has its own role and mission, service area, and own distinct demographic challenges and target students. Recognizing these differences, the CCHE developed performance contracts that contain specific metrics that are common to all institutions as well as individual metrics specifically developed by each institution and tied to its individual mission. Institutions then assigned weights to their chosen metrics that will factor into the funding allocation model.

Each institution's performance will be assessed based on its progress in successfully meeting its metrics; at the same time, a total performance funding allocation will depend on the performance of other institutions on similar metrics. Representatives from Colorado's colleges and universities institutional research offices were essential in the development of a metric guidebook to document the details of how each metric will be measured and reported. Addendum A lists the four statewide goals with all institutional metrics and Addendum B contains the guidebook with details on how metrics will be measured.

Common Principles

In developing the Master Plan, performance contracts and this performance funding plan, the CCHE has sought to align its work with best practices from around the country, from organizations including the National Governors Association Center for Best Practices, the National Center for Higher Education Management Systems (NCHEMS), the National Conference of State Legislatures (NCSL) and others. Illustrative of best practices endorsed by all these organizations are the following recommendations from a NCSL brief:[1]

- Allow postsecondary institutions with different missions to be measured by different standards.
- Engage all stakeholders—policymakers, higher education leaders and faculty members—in the design of the funding system.
- Phase in the performance funding system to smooth the transition to performance funding.

[1] NCSL Legisbrief, *Performance-Based Funding for Higher Education*; Vol. 20, No. 30 August 2012

- Maintain focus on the goal of improving college completion to benefit students, and reward both progress (momentum) and success (goal achievement).

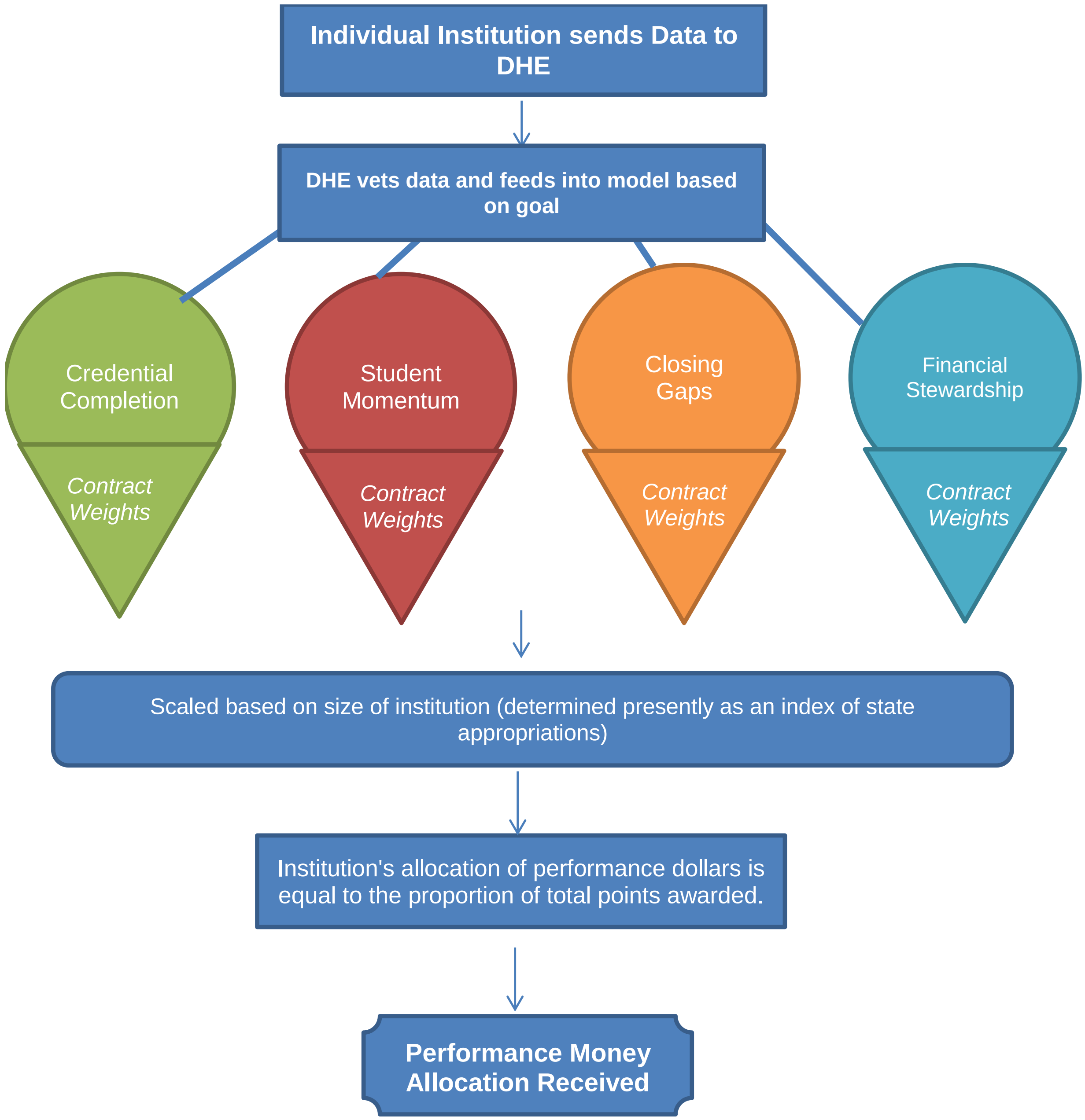
The performance contracts and the Commission's performance funding plan are further based on a number of principles comprehensively discussed and agreed to by institutions and that, in many cases, align with national best practices. These principles will serve as the basis for determining performance as well as the approach to the plan itself and its implementation over the first years:

- Performance contracts should include both common metrics that apply across institutions and individual institution-developed metrics;
- Each of the four state-wide goals should align with at least one required metric with significant weight;
- The performance funding system should provide institutions with flexibility to weigh metrics to reflect individual role and mission;
- Performance assessment should reward both success and progress toward success;
- Institutions cannot earn "extra credit" points for performing beyond their stated goals;
- Rates should be measured based on three-year rolling averages when applicable;
- A two-year "test phase" will provide an adequate opportunity to collect data and allow for the review and assessment of the metrics and measurement tool before dollars are in play;
- Institutions will provide data to the Department; the Department will vet the data to ensure consistency and accuracy.

Aligning Institution Performance with Potential for Funding

The Colorado Department of Higher Education contracted with NCHEMS to develop a performance funding allocation model, using the common principles and agreed upon decision points from the Department and higher education representatives. This model is conceptually depicted in Figure 1.

Figure 1. Performance Funding Allocation Model



As Figure 1. shows, each institution will collect and analyze data based on the measurement definitions and collection guidelines outlined in the performance funding metric data guidebook. The institutions will submit the data to the Department utilizing a standardized reporting format via a performance funding data collection system. The institutions are reporting data to the Department because some required variables, such as peer comparison data, are not currently captured at the state level. In such cases, national reporting systems will be used to ensure data consistency and accuracy. The Department will review and vet the data from each institution and then enter the three year measurements into the allocation funding tool developed by NCHEMS, with each metric categorized based on the four state goals. The Department will enter institutionally-developed metrics into their own separate category.

As noted above, higher education representatives recommended that both progress toward goal as well as goal completion should be valued. For example, if an institution achieves 90 percent of its metric goal rather than 100 percent, the institution would still receive partial credit towards meeting the goal rather than nothing. This is consistent with the recommendations of national experts to create an incentive for improvement even if the goal is not reached. Representatives also agreed that an institution would not receive "extra credit" for exceeding its metric goals as this could create a circumstance where some goals are substantially exceeded such that the total availability of performance funds would be materially depleted.

Detailing the performance funding model:

1) To award either progress or success, the model categorizes each metric into a "linear" or "stepwise binary" measurement.
2) Once the degree or percent of accomplishment for a metric goal is established, the model factors the weight initially assigned to that metric and awards a point value.
3) Next, the model will scale the point value based on the size of the institution. There are numerous means to assess institutional size; the model as currently proposed utilizes the index of state appropriations.
4) Finally, each of the scaled or adjusted points is collapsed back into the larger categories based on the four state goals of the performance contracts.

The total number of system-wide points available determines each governing boards' potential share of total points. The model takes this number and applies it to the performance funding pool available and this becomes the institution's total potential share of performance funding dollars.

Because the performance funding allocation model is calculated based upon percentages among the institutions and awards points for partially achieving goals, the model allocates ***all*** available performance funding at one time. In other words, no performance funds are "left over." For example, if Institution A meets a higher percentage of its goals it will receive a higher percentage of the total performance funding pool as compared to the other colleges and universities that met a lower percentage of the metrics that support the performance funding goals.

Figure 2. demonstrates this technical process by examining one hypothetical institution with one performance metric.

Figure 2. Performance Funding Allocation Model Example

In the first box below, the data on the number of degrees or credentials awarded are recorded for three years in the blue section. The percent difference between the data for each year is recorded in the green section and that information is applied to the agreed upon metric in the pink section:

Metric 1.1 College Completion			Institution A
DATA: Undergraduate Credentials Awarded	Academic Year	2009-10	282
		2010-11	301
		2011-12	300
CALCULATION: Percent Difference from Year to Year	Academic Year	2009-10	-
		2010-11	6.7%
		2011-12	-0.3%
PASS: If Undergraduate Credentials Awarded Increased by 1 Percentage Point from Year to Year, then Award 100 Points; if not, 0 points.	Academic Year	2009-10 (Baseline Year)	-
		2010-11	-
		2011-12	100
	Σ	Sum of Points	**100**

Data collected and points assigned

In the purple box below the “Sum of points” is multiplied by the weight assigned to the metric. In this case, 100 points X 20% = 20 points.

Institution A			
CONTRACT WEIGHTS: Campus Weights Applied to Sum of Points	Weights	Contract Weight	20%
		Points x Weight	0.0
FINAL WEIGHTED POINTS	FINAL	POINTS	**20**

Points are weighted

In the blue box below the weighted points are scaled based upon the size of the institution (in this case as measured by share of state support funding).

Institution A		
Weighted Points are then Scaled based upon Campus Size	Points	20%
	Scale	0.8
FINAL WEIGHTED and SCALED POINTS		**1.54**

Weighted points are scaled

When the scaled points from each institution are added together and summed, "Institution A's" performance relative to the rest of the system can be determined.

Institution	**Indexed Points are then added together and summed to determine point value**	
	1. Credential Completion Points	**SUM TOTAL**
A	1.54	3.56%
B	5.28	12.22%
C	14.62	33.85%
D	0.63	1.47%
E	20.00	46.30%
F	1.12	2.59%
Total	43.2	100%

Percent of Performance calculated

Finally, the percentage share of performance can be multiplied by the total amount of performance funding available and a performance funding amount can be awarded to the institution.

Institution	Previous Funding and Ancillary Subsumed		Performance Formula	
	FY13-14 Appropriation	Scaling Size for Performance Component	Performance Share (%)	Performance Allocation ($)
A	$ 11,561,201	0.80	3.6%	$ 498,787
Less Performance Allocation	$ 14,000,000			
System Total Base Allocation	$ 706,000,000			$ 14,000,000

To sum up the example, "Institution A" met its college completion goal and therefore received 100 percent of possible points toward meeting this metric. Institution A weighted this metric at 20 percent and therefore received 20 points for this metric. Scaling for size, Institution A received 1.54 total points towards this metric, which, when compared with the other institutions, was 3.56 percent of the total percent (100 percent). Based upon state appropriations and with the performance funding pool totaling $14 million, "Institution A" would receive $498,787 of the available performance dollars.

Statutory Requirements to Allocate Performance Funding

The College Opportunity Fund (COF) program currently provides funding to the public institutions of higher education (with exception of the Local District Junior Colleges and the Area Vocational Schools). The COF program is comprised of two components: the student stipend and the fee-for-service contract. With the student stipend, the state provides funding to the COF eligible student which is then used by the college selected by the student to buy down tuition. Fee-for-service contracts allow the state to purchase specific services from institutions through contracts. Under this approach, the funds do not count as direct General Fund grants to the participating governing boards, allowing the institutions to retain their status as state enterprises. The state enterprise distinction is important for purposes of determining whether institution tuition revenue is counted against the state's constitutional TABOR revenue limit.

To preserve the governing boards' ability to qualify as state enterprises, the Department recommends allocating performance funding when it becomes available through a third category within the COF funding program. In the same way that the state currently purchases services through fee-for-service contracts, the state would "purchase" performance under the performance area identified in each performance contract. Relatively minor changes to Section 23-18-101 (et. el.) would be necessary to achieve this conceptual third revenue stream for purchase of performance from the participating governing boards.

Challenges

Throughout the process of implementing performance based funding in Colorado, CCHE, the Department and the institution governing boards have addressed a number of challenges and some of these will continue in the coming months and years. Primary among these has been the challenge of balancing statewide goals (and the supporting performance metrics) with respecting the uniqueness of each governing board and institutions' role and mission within the state system. Several specific challenges that the Department is working to address include:

- As currently envisioned, the potential amount of performance funding would be relatively low and raised the question whether the amount of funds will be incentive enough to create a long-term change in behavior.
- The balance mentioned above between flexibility (tailored metrics) and the need for meaningful statewide comparisons makes a very intricate and complicated allocation tool, which can be viewed as less transparent and difficult to explain to constituents.
- Defining measurements *consistently* is a challenge due to the high number of metrics and individual means of measuring the data. Completing a model that applies the measurements consistently is vital as consistent input is needed for fair outputs.
- There is potential for a perception of weak or insignificant performance contracts where governing boards vary significantly in setting goals and metrics.
- Funding levels adequate to trigger performance funding may not be realistic for several years.

Opportunities

The CCHE and Department are also cognizant of opportunities arising from the challenges described above. Higher education in Colorado is entering a new era of responsible accountability and performance funding provides an avenue for Colorado's public colleges and universities to demonstrate their deserved value. This also creates a platform for highlighting success. Several specific highlights that the Department perceives include:

- Many institutions have self-selected and weighted challenging, meaningful indicators that align with the primary goals of the Master Plan;
- The Master Plan and contracts were built collaboratively with institutional input at every stage of the process which is a necessary component for sustained success;
- This system and approach will generate years of meaningful, relevant measurement data that is not currently collected regardless of how quickly the State is able to return to performance funding levels;
- The current approach provides opportunity for the institutions to gauge performance against initially selected indicators and make any necessary or desired changes;
- Likewise, there is an opportunity for the CCHE to work with the governing boards and institutions to evaluate the performance contracts and indicators to ensure the optimal alignment with the goals of the Master Plan.

Next Steps

Figure 3 highlights the next steps required for implementation of performance funding in Colorado. The CCHE and the Department of Higher Education will continue an inclusive approach to implementation of performance funding, similar to the development of this plan. Following CCHE approval, the next immediate step is submission and review by the Joint Budget Committee. Internally, the Department will continue to work on taking the necessary steps for performance funding implementation. This includes preparing a data collection method for which the institutions can submit data to DHE in a consistent format and collecting data. Our partner institutions have agreed to submit their final performance metric data to the Department by early May of 2014. The Department will vet the data and report back to the institutions regarding any changes to the data and/or make any necessary data definition revisions. DHE will work closely with NCHEMS to import the data and finalize the performance funding tool. The Department will conduct first public reporting on institutional performance in December 2014. The Department and institutions have agreed to a review of the performance funding contracts and metrics in the Fall of 2015, prior to the potential activation of performance funding.

Figure 3. Performance Funding Implementation Timeline

Next Steps Towards Implementation of Senate Bill 11-052	
Date	**Activity**
December 2013	Colorado Commission on Higher Education Plan Approval
December 2013	Performance Funding Plan submitted to the Joint Education Committee
February 2014	DHE will build a Performance Funding Metric Data Collection System by which Institutions will Submit Metric Data
May 2014	Performance Funding Metric Data Collection Submission Due from Institutions of Higher Education to DHE
December 2014	Performance Funding Baseline Report
2015	Review of Performance Funding Contracts
2016-2017	With Appropriate State Funding Performance Funding Begins

Conclusion

This document outlines the specifics of the recommended performance funding plan for Colorado higher education and includes common principles, the specific funding allocation model and the anticipated statutory change. The Department believes this recommended plan, although heavily quantitative, provides the foundation for measuring the highest priority outcomes at the institution level and for Colorado's public postsecondary system as a whole. When fully implemented, performance funding will provide an incentive-based structure to drive improved performance in areas directly supporting statewide goals for public higher education in Colorado.

Appendix A: Statewide Goals and Performance Funding Metrics by IHE

Adams State University

Goal		Weight (%)
Goal #1: Increasing Attainment	**Common Indicator**	
	1.1 Increase undergraduate credentials awarded by 1% each year.	20%
	1.2 "Maintain excellence" By conferring undergraduate credentials per 100 students enrolled at a level at or among the top 25% of peer institutions.	15%
	Institutional Developed	
	1.7 "Maintain excellence" by conferring graduate credentials at a level at or among the top 25% of peer institutions.	10%
Goal #2: Improving Student Success	**Common Indicator**	
	2.2 Annually increase the proportion of students who accumulate at last 24 credit hours.	10%
	2.5 Annually increase retention rates across all student levels (e.g., sophomore, junior, senior).	5%
	Institutional Developed	
	2.6 Annually increase the number of credit hours taken per headcount.	5%
Goal #3: Reducing Gaps	**Common Indicator**	
	3.2 Annually reduce disparities in degree completion (graduates per 100 FTE) between resident undeserved and resident non-underserved students.	5%
	Institutional Developed	
	3.9 "Maintain excellence by conferring graduate credentials at a level at or among the top 25% of peer institutions.	15%
Goal #4: Restoring Fiscal Balance	**Common Indicator**	
	4.1 Maintain the institution's rank relative to peers regarding the number of degrees awarded per $100,000 in total operating (E&G) revenues.	5%
	4.4 Increase institutional need-based financial aid expenditures (per FTE) at a rate at or above tuition increases for resident undergraduate students.	5%
	Institutional Developed	
	4.5 Maintain the institution's rank relative to peers regarding affordability by measuring the number of PELL eligible students per 100 FTE.	5%
Total		100%

Colorado Mesa University

Goal	Common Indicator	Weight (%)
Goal #1: Increasing Attainment	**Common Indicator**	
	1.1 Increase undergraduate credentials awarded by 1% each year.	15%
	Institutional Developed	
	1.7 Increase the average number of undergraduate degrees awarded in STEM and healthcare related disciplines by 1% per year until the University has increased completions to 110% of the base year completions average, and then maintain a level of completions at or above 110% of the base year.	10%
	1.8 Increase the base year average of six-ear graduation rates for first-time, full-time, baccalaureate-seeking undergraduates until the six-year graduation rate average is at or above the average for CCHE-defined peer institutions.	10%
	1.9 Increase the average number of undergraduate degrees awarded in disciplines that support regional workforce needs by 1% per year until the University has increased completions to 100% of the base year completions average, and then maintain a level of completions at or above 110% of the base year.	10%
Goal #2: Improving Student Success	**Common Indicator**	
	N/A	0%
	Institutional Developed	
	2.6 Increase the average base year percentage of baccalaureate-seeking students by 1% per year who successfully complete introductory, college-level courses in English and mathematics to 110% of the base year average and then maintain a level course completion at or above 110% of the base year.	5%
	2.7 Increase the base year average number of first-time, full-time, associate and baccalaureate-seeking students who accumulate at least 30 credit hours by the end of their third semester until CMU has reached 110% of the base year average, and then maintain the level of credit hours completion at or above 110% of the base year.	15%
Goal #3: Reducing Gaps	**Common Indicator**	
	3.1 Annually reduce disparities in graduation rates between resident underserved and resident non-underserved students.	3%
	Institutional Developed	
	3.9 Increase the average number of newly-enrolled students from underserved populations by 1% per year above the base year average or until the University's average underserved, undergraduate population is 5%higher than the base year average and then maintain an average number at 5% or above that of the base year.	17%

Colorado Mesa University (cont'd)		
Goal #4: Restoring Fiscal Balance	**Common Indicator**	
	N/A	0%
	Institutional Developed	
	4.5 Maintain excellence by ensuring that CMU remains in the top 25% of CCHE defined peer institutions as measured by the average percentage of expenditures allocated to instruction, beginning with the base year average.	8%
	4.6 Increase institutional financial aid awards (per FTE) to students with demonstrated need using state. Federal and institutional guidelines at a rate at or above tuition percentage increases for resident undergraduate students.	8%
Total		100%

Metropolitan State University of Denver

		Weight (%)
Goal #1: Increasing Attainment	**Common Indicator**	
	1.1 Increase undergraduate credentials awarded by 1% each year.	10%
	1.4 Annually increase the graduation rate of transfer students.	10%
	Institutional Developed	
	1.7 Increase undergraduate credentials for resident, underserved students by 2% per year.	10%
Goal #2: Improving Student Success	**Common Indicator**	
	2.1 Annually increase the successful completion (C or better) of introductory gtPathways courses in English and Mathematics.	9%
	2.2 Annually increase the proportion of students who accumulate at last 24 credit hours.	8%
	2.5 Annually increase retention rates across all student levels (e.g., sophomore, junior, senior).	8%
	Institutional Developed	
	N/A	0%
Goal #3: Reducing Gaps	**Common Indicator**	
	3.1 Annually reduce disparities in graduation rates between resident underserved and resident non-underserved students.	10%
	3.5 Annually increase the number of resident underserved students who earn postsecondary credentials in STEM disciplines.	10%
	Institutional Developed	
	3.9 Meet our annual projections of increased Latino\Hispanic enrollment by 8.25% per year (from base year 2007) to achieve HIS status (25% overall Latino\Hispanic enrollment) by 2018.	10%
Goal #4: Restoring Fiscal Balance	**Common Indicator**	
	4.1 Maintain the institution's rank relative to peers regarding the number of degrees awarded per $100,000 in total operating (E&G) revenues.	5%
	4.4 Increase institutional need-based financial aid expenditures (per FTE) at a rate at or above tuition increases for resident undergraduate students.	10%
	Institutional Developed	
	N/A	0%
Total		100%

Western State Colorado University		
Goal #1: Increasing Attainment	**Common Indicator**	Weight (%)
	1.2 "Maintain excellence" By conferring undergraduate credentials per 100 students enrolled at a level at or among the top 25% of peer institutions.	17%
	Institutional Developed	
	1.7 Annually increase he number of credentials (graduate included) in STEM.	5%
Goal #2: Improving Student Success	**Common Indicator**	
	2.5 Annually increase retention rates across all student levels (e.g., sophomore, junior, senior).	8%
	Institutional Developed	
	2.6 Annually increase the success rates of students identified with remedial needs transferring into credit-bearing courses.	8%
	2.7 Maintain WSCU's 80% successful completion (C or better) of introductory gtPathways courses in English and Mathematics.	10%
Goal #3: Reducing Gaps	**Common Indicator**	
	3.1 Annually reduce disparities in graduation rates between resident underserved and resident non-underserved students.	5%
	3.2 Annually reduce disparities in degree completion (graduates per 100 FTE) between resident undeserved and resident non-underserved students.	3%
	3.4 Annually increase the proportion of newly enrolled resident students who are from resident underserved populations.	5%
	3.7 Annually reduce disparities in retention rates among resident underserved students and resident non-underserved students across all levels (sophomore, junior, senior).	4%
	Institutional Developed	
	3.9 Annually increase the proportion of underserved resident students as defined by gender and region (i.e., rural Colorado).	5%
Goal #4: Restoring Fiscal Balance	**Common Indicator**	
	4.1 Maintain the institution's rank relative to peers regarding the number of degrees awarded per $100,000 in total operating (E&G) revenues.	15%
	Institutional Developed	
	4.5 Maintain ranking at or among the top 50% of peer institutions in administrative efficiencies as measured by administrative expenditures as a percent of total expenditures.	15%
Total		100%

Ft. Lewis College		
Goal #1: Increasing Attainment	**Common Indicator**	Weight (%)
	1.1 Increase undergraduate credentials awarded by 1% each year.	10%
	1.4 Annually increase the graduation rate of transfer students.	15%
	1.5 Annually increase proportion of undergraduate credentials awarded in STEM disciplines	5%
	Institutional Developed	
	N/A	0%
Goal #2: Improving Student Success	**Common Indicator**	
	2.2 Annually increase the proportion of students who accumulate at last 24 credit hours.	10%
	2.5 Annually increase retention rates across all student levels (e.g., sophomore, junior, senior).	10%
	Institutional Developed	
	N/A	0%
Goal #3: Reducing Gaps	**Common Indicator**	
	3.2 Annually reduce disparities in degree completion (graduates per 100 FTE) between resident undeserved and resident non-underserved students.	10%
	3.5 Annually increase the number of resident underserved students who earn postsecondary credentials in STEM disciplines.	5%
	3.7 Annually reduce disparities in retention rates among resident underserved students and resident non-underserved students across all levels (sophomore, junior, senior).	10%
	Institutional Developed	
	N/A	0%
Goal #4: Restoring Fiscal Balance	**Common Indicator**	
	4.1 Maintain the institution's rank relative to peers regarding the number of degrees awarded per $100,000 in total operating (E&G) revenues.	15%
	4.2 Moderate resident undergraduate tuition increases when state general fund revenues increase above inflation.	10%
	Institutional Developed	
	N/A	
Total		100%

Colorado State University		
Goal #1: Increasing Attainment	**Common Indicator**	Weight (%)
	1.1 Increase undergraduate credentials awarded by 1% each year.	10%
	1.5 Annually increase proportion of undergraduate credentials awarded in STEM disciplines.	5%
	1.6 Annually increase graduate degree productivity as measured by the number of graduate credentials awarded compared to the number of graduate students (FTE) enrolled.	10%
	Institutional Developed	
	1.7 Annually decrease the median time/credits to graduation for undergraduate resident students.	5%
Goal #2: Improving Student Success	**Common Indicator**	
	2.1 Annually increase the successful completion (C or better) of introductory gtPathways courses in English and Mathematics.	10%
	2.5 Annually increase retention rates across all student levels (e.g., sophomore, junior, senior).	5%
	Institutional Developed	
	2.6 Annually increase the proportion of freshman cohort students who accumulate at least 30 credit hours by the beginning of the third semester.	10%
Goal #3: Reducing Gaps	**Common Indicator**	
	3.1 Annually reduce disparities in graduation rates between resident underserved and resident non-underserved students.	5%
	3.2 Annually reduce disparities in degree completion (graduates per 100 FTE) between resident undeserved and resident non-underserved students.	10%
	3.4 Annually increase the proportion of newly enrolled resident students who are from resident underserved populations.	5%
	3.8 Annually increase the proportion of resident underserved students who earn graduate-level degrees.	5%
	Institutional Developed	
	N/A	0%
Goal #4: Restoring Fiscal Balance	**Common Indicator**	
	4.1 Maintain the institution's rank relative to peers regarding the number of degrees awarded per $100,000 in total operating (E&G) revenues.	7%
	Institutional Developed	
	4.5 Annually decrease the proportion of E&G Revenues derived from Colorado resident tuition.	7%
	4.6 Expand research and engagement efforts with external funding sources that leverage institutional investments to enhance our mission of discovery, yield increased community engagement, and promote life-long learning of the citizens of Colorado.	6%
Total		100%

University of Colorado

Goal	Indicator	Weight (%)
Goal #1: Increasing Attainment	**Common Indicator**	
	1.1 Increase undergraduate credentials awarded by 1% each year.	10%
	Institutional Developed	
	1.7 Annually increase the number of graduate and professional credentials awarded.	10%
Goal #2: Improving Student Success	**Common Indicator**	
	2.5 Increase or maintain the proportion of fall undergraduate degree-seeking students with freshman though junior class standing (combined), who are enrolled or have graduated by fall.	12%
	Institutional Developed	
	2.6 Annually increase the number of undergraduate students who transfer from Colorado community colleges.	10%
Goal #3: Reducing Gaps	**Common Indicator**	
	3.1 Annually reduce disparities in graduation rates between resident underserved and resident non-underserved students.	12%
	Institutional Developed	
	3.9 Annually increase the number of undergraduate credentials earned by resident underserved students.	12%
Goal #4: Restoring Fiscal Balance	**Common Indicator**	
	4.4 Increase institutional need-based financial aid expenditures (per FTE) at a rate at or above tuition increases for resident undergraduate students.	10%
	Institutional Developed	
	4.5 Maintain administrative expenditures (as a percentage of total expenditures) at or below the peer institution average.	12%
	4.6 Maintain a high grade (AA- or higher) designation by external bond rating agencies.	12%
Total		100%

Colorado School of Mines

		Weight (%)
Goal #1: Increasing Attainment	**Common Indicator**	
	1.3 "Maintain excellence" by maintaining graduation rates at or among the top 25% of peer institutions.	25%
	Institutional Developed	
	1.7 Annually award over 90% of undergraduate degrees in the STEM disciplines.	10%
Goal #2: Improving Student Success	**Common Indicator**	
	N/A	0%
	Institutional Developed	
	2.6 Maintain excellence in outcomes rate by having at least 90% of bachelor degree recipients either enrolling in graduate school or be employed in a job related to their course of study within one year of graduation.	10%
	2.7 Maintain excellence by maintaining retention rates at or above 25% of peer institutions.	20%
Goal #3: Reducing Gaps	**Common Indicator**	
	3.1 Annually reduce disparities in graduation rates between resident underserved and resident non-underserved students.	10%
	Institutional Developed	
	3.9 Maintain excellence by maintaining proportion of undergraduate degrees awarded to women at or among the top 25% nationally as measured and reported by he American Society of Engineering Education (ASEE).	10%
Goal #4: Restoring Fiscal Balance	**Common Indicator**	
	4.1 Maintain the institution's rank relative to peers regarding the number of degrees awarded per $100,000 in total operating (E&G) revenues.	5%
	Institutional Developed	
	4.5 Maintain excellence by remaining at or among top 25% of public institutions in endowment per FTE as ranked by the National Association of College and University Business Officers (NACUBO).	10%
Total		100%

University of Northern Colorado		
Goal #1: Increasing Attainment	**Common Indicator**	Weight (%)
	1.2 "Maintain excellence" By conferring undergraduate credentials per 100 students enrolled at a level at or among the top 25% of peer institutions.	15%
	1.4 Annually increase the three-year rolling average for the graduation rate of transfer students.	5%
	Institutional Developed	
	N/A	0%
Goal #2: Improving Student Success	**Common Indicator**	
	2.1 Annually increase the successful completion (C or better) of introductory gtPathways courses in English and Mathematics.	10%
	Institutional Developed	
	2.6 Annually increase the three-year rolling average for retention rates for academically prepared (index score of 94 or higher) Pell-eligible students across all levels.	5%
	2.7 Annually increase the three-year rolling average for retention rates for Pell-eligible students with an index score below 94 across all levels.	5%
Goal #3: Reducing Gaps	**Common Indicator**	
	3.2 Annually reduce disparities in degree completion (graduates per 100 FTE) between resident undeserved and resident non-underserved students.	15%
	3.7 Using a two-year average for the fist year and a three-year rolling average thereafter, annually reduce the average for disparities in retention rates among resident underserved students and resident non-underserved students across all levels (sophomore, junior, senior).	5%
	Institutional Developed	
	N/A	0%
Goal #4: Restoring Fiscal Balance	**Common Indicator**	
	4.2 Moderate resident undergraduate tuition increases when state general fund revenues increase above inflation.	20%
	Institutional Developed	
	4.5 Maintain the institution's standing in the top quartile relative to peers regarding the number of degrees awarded per $100,000 in total operating (E&G) revenues.	20%
Total		100%

Colorado Community College System		
Goal #1: Increasing Attainment	**Common Indicator**	Weight (%)
	1.1 Increase undergraduate credentials awarded by 1% each year.	20%
	Institutional Developed	
	1.7 Annually increase transfer out rate of degree-seeking associate of art or associate of science students who earn at least 12 credit hours.	15%
Goal #2: Improving Student Success	**Common Indicator**	
	2.5 Annually increase retention rates across all student levels.	15%
	Institutional Developed	
	2.6 Annually increase remedial course completion rates while completing the implementation of the CCCS remedial task force recommendations by Fall term of 2016.	15%
Goal #3: Reducing Gaps	**Common Indicator**	
	3.2 Annually reduce disparities in credential completion between resident underserved and resident non-underserved students.	15%
	3.6 Annually reduce disparities in the transfer out rate between resident underserved students and resident non-underserved students.	5%
	Institutional Developed	
	N/A	0%
Goal #4: Restoring Fiscal Balance	**Common Indicator**	
	4.2 Moderate resident undergraduate tuition increases when state general fund revenues increase above inflation.	10%
	Institutional Developed	
	4.5 Maintain base CCCS resident tuition levels at less than 60% of Colorado.	5%
Total		100%

Aims Community College		
Goal #1: Increasing Attainment	**Common Indicator**	Weight (%)
	1.3 "Maintain excellence" by maintaining graduation rates at or among the top 25% of peer institutions.	15.0%
	Institutional Developed	
	1.7 Annually increase the completion rate of students in all degrees and certificates including those certificates less than 30 hours.	15.0%
Goal #2: Improving Student Success	**Common Indicator**	
	2.2 Annually increase the proportion of students who accumulate at last 24 credit hours.	13.5%
	Institutional Developed	
	2.6 Annually increase the proportion of students who complete the final development course in English or Math and complete College Level English or Mach with a C or better.	6.5%
Goal #3: Reducing Gaps	**Common Indicator**	
	3.1 Annually reduce disparities in graduation rates between resident underserved and resident non-underserved students.	15.0%
	3.3 Annually reduce disparities in the successful completion rates of entry-level gtPathways courses English and entry-level mathematics courses between resident underserved students and resident non-underserved students.	5.0%
	Institutional Developed	
	N/A	0.0%
Goal #4: Restoring Fiscal Balance	**Common Indicator**	
	4.2 Moderate resident undergraduate tuition increases when state general fund revenues increase above inflation.	20.0%
	4.3 Increase expenditures for instruction (per FTE) at a rate that is equivalent to or greater than tuition increases for resident undergraduate students.	10.0%
	Institutional Developed	
	N/A	0.0%
Total		100.0%

Colorado Mountain College		
Goal #1: Increasing Attainment	**Common Indicator**	Weight (%)
	1.1 Increase undergraduate credentials awarded by 1% each year.	10%
	Institutional Developed	
	1.7 For each CMC bachelor's program, annually increase the number of graduates by 5% (starting from the 2nd year when graduates are expected).	23%
Goal #2: Improving Student Success	**Common Indicator**	
	2.1 Annually increase the successful completion (C or better) of introductory gtPathways courses in English and Mathematics.	5%
	Institutional Developed	
	2.6 Annually increase the pass rate (C- or better) in all courses by 1%.	15%
Goal #3: Reducing Gaps	**Common Indicator**	
	3.1 Annually reduce disparities in graduation rates between resident underserved and resident non-underserved students by 1%.	5%
	Institutional Developed	
	3.9 Annually increase the average number of completed credits for resident underserved students by 1%.	15%
Goal #4: Restoring Fiscal Balance	**Common Indicator**	
	4.2 Moderate resident undergraduate tuition increases when state general fund revenues increase above inflation	8%
	Institutional Developed	
	4.5 The dollar tuition increase at CMC will be less than the average of the colleges and universities in Colorado, on the three-year running average.	19%
Total		100%

Delta Montrose Technical College		
Goal #1: Increasing Attainment	**Common Indicator**	Weight (%)
	1.1 Increase undergraduate credentials awarded by 1% each year.	7%
	1.3 "Maintain excellence" by maintaining graduation rates at or among the top 25% of peer institutions.	18%
	1.5 Annually increase proportion of certificate credentials awarded in STEM disciplines	5%
Goal #2: Improving Student Success	**Institutional Developed**	
	2.6 Increase persistence rates within certificate programs more than one semester in length from Semester 1 to Semester 2.	15%
	2.7 Increase enrollment rates from HS into DMTC certificate programs.	5%
	2.8 Maintain excellence by achieving placement rates at a level at or among the top 25% of peer institutions.	10%
Goal #3: Reducing Gaps	**Common Indicator**	
	3.1 Annually reduce disparities in graduation rates between resident underserved and resident non-underserved students by 1%.	10%
	3.4 Annually increase the proportion of newly enrolled resident students who are from resident underserved populations.	10%
Goal #4: Restoring Fiscal Balance	**Common Indicator**	
	4.1 Maintain the institution's rank relative to peers regarding the number of degrees awarded per $100,000 in total operating (E&G) revenues.	10%
	4.2 Moderate resident undergraduate tuition increases when state general fund revenues increase above inflation	10%
Total		100%

Emily Griffith Technical College		
Goal #1: Increasing Attainment	**Common Indicator**	Weight (%)
	1.1 Increase undergraduate credentials awarded by 1% each year.	7%
	1.3 "Maintain excellence" by maintaining graduation rates at or among the top 25% of peer institutions.	18%
	1.5 Annually increase proportion of certificate credentials awarded in STEM disciplines	5%
Goal #2: Improving Student Success	**Institutional Developed**	
	2.6 Increase persistence rates within certificate programs more than one semester in length from Semester 1 to Semester 2.	15%
	2.7 Increase matriculation rates from EGTC concurrent enrollment students into EGTC certificate programs.	5%
	2.8 Maintain excellence by achieving placement rates at a level at or among the top 25% of peer institutions.	10%
Goal #3: Reducing Gaps	**Common Indicator**	
	3.1 Annually reduce disparities in graduation rates between resident underserved and resident non-underserved students by 1%.	10%
	3.4 Annually increase the proportion of newly enrolled resident students who are from resident underserved populations.	10%
Goal #4: Restoring Fiscal Balance	**Common Indicator**	
	4.1 Maintain the institution's rank relative to peers regarding the number of degrees awarded per $100,000 in total operating (E&G) revenues.	10%
	4.2 Moderate resident undergraduate tuition increases when state general fund revenues increase above inflation	10%
Total		100%

Pickens Technical College		
Goal #1: Increasing Attainment	**Common Indicator**	Weight (%)
	1.1 Increase undergraduate credentials awarded by 1% each year.	7%
	1.3 "Maintain excellence" by maintaining graduation rates at or among the top 25% of peer institutions.	18%
	1.5 Annually increase proportion of certificate credentials awarded in STEM disciplines	5%
Goal #2: Improving Student Success	**Institutional Developed**	
	2.6 Increase persistence rates within certificate programs more than one semester in length from Semester 1 to Semester 2.	15%
	2.7 Increase enrollment rates from HS concurrent enrollment students into PTC certificate programs.	5%
	2.8 Maintain excellence by achieving placement rates at a level at or among the top 25% of peer institutions.	10%
Goal #3: Reducing Gaps	**Common Indicator**	
	3.1 Annually reduce disparities in graduation rates between resident underserved and resident non-underserved students by 1%.	10%
	3.4 Annually increase the proportion of newly enrolled resident students who are from resident underserved populations.	10%
Goal #4: Restoring Fiscal Balance	**Common Indicator**	
	4.1 Maintain the institution's rank relative to peers regarding the number of degrees awarded per $100,000 in total operating (E&G) revenues.	10%
	4.2 Moderate resident undergraduate tuition increases when state general fund revenues increase above inflation	10%
Total		100%

COLORADO GENERAL ASSEMBLY
JOINT BUDGET COMMITTEE

FY 2014-15 STAFF BUDGET BRIEFING

DEPARTMENT OF HIGHER EDUCATION

JBC Working Document - Subject to Change
Staff Recommendation Does Not Represent Committee Decision

Prepared By:
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December 3, 2013

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DEPARTMENT OF HIGHER EDUCATION

Department Overview

The Department of Higher Education has the following key responsibilities:

- Distributes state funding to higher education institutions through:
  - The College Opportunity Fund Program that provides stipends to students for undergraduate education,
  - Fee-for-service contracts with institutions to provide graduate, professional, specialized, rural, and other education programs; and
  - State subsidies for Local District Junior Colleges and Area Vocational Schools
- Distributes state financial aid for students through allocations to higher education institutions
- Supports vocational and occupational education programs
- Establishes policy and provides central coordination for state-supported higher education programs under the authority of the Colorado Commission on Higher Education (CCHE). This includes ensuring institutional degree programs are consistent with institutional missions, establishing statewide enrollment policies and admissions standards, negotiating performance contracts with higher education institutions, determining allocation of financial aid among institutions, approving tuition increases greater than 9.0 percent (for the period FY 2011-12 through FY 2015-16), and coordinating statewide higher education operating and capital construction budget requests
- Regulates private occupational schools under the oversight of Colorado State Board of Private Occupational Schools
- Oversees CollegeInvest and CollegeAssist, statutorily-authorized state enterprises with responsibilities related to college savings and student loan programs
- Develops reports on the higher education system as needed or directed by the General Assembly, and, as part of this function, provides a central repository for higher education data with links to P-12 and employment data;
- Collects, preserves, exhibits, and interprets items and properties of historical significance through History Colorado (formerly the State Historical Society).

Authority over Colorado's higher education system is relatively decentralized. Individual governing boards have substantial independent authority over the management of their institutions. The Governor appoints, with consent of the Senate, the members of CCHE, most members of the governing boards of the state institutions of higher education (with the exception of the regents of the University of Colorado, who are elected) and the members of the State Board of Private Occupational Schools.

Department divisions include the Department Administrative Office (centrally-appropriated line items), Colorado Commission on Higher Education, Colorado Commission on Higher Education Financial Aid, College Opportunity Fund Program, Governing Boards, Local District Junior Colleges, the Auraria Higher Education Center, and History Colorado.

Colorado Commission on Higher Education: The executive director of CCHE, currently Lieutenant Governor Garcia, is also the executive director of the Department. The appropriation for CCHE funds the Commission's administrative staff of 30.5 FTE, the Division of Private Occupational Schools, and various special-purpose line items. This section is largely supported through indirect cost recoveries.

College Opportunity Fund Program and Governing Boards: Almost 80 percent of state General Fund appropriations to the Department are for the College Opportunity Fund (COF) Program, with amounts reappropriated to each of the governing boards in consolidated line items in the Governing Boards section. The COF Program provides stipends for undergraduate resident students to attend public colleges and participating private colleges in Colorado and also supports fee-for-service contracts with public higher education institutions for graduate education and other educational services not covered by the stipends.

Colorado Commission on Higher Education Financial Aid: State support for higher education financial aid, which comprises about 17 percent of General Fund appropriations to the Department, is appropriated to CCHE for allocation to the Governing Boards.

Other Higher Education Divisions: The Division of Occupational Education oversees Colorado Vocational Act programs, the Area Vocational Schools, federal Perkins technical training programs, and resources for the promotion of job development, job training, and job retraining. Separate divisions provide state subsidies for Local District Junior Colleges and reappropriated funds for the Auraria Higher Education Center, which maintains the single shared campus of the Community College of Denver, Metropolitan State College of Denver, and the University of Colorado at Denver.

History Colorado: The Department budget includes appropriations for the Colorado History Museum and regional museums and facilities. Funding is largely comprised of state Limited Gaming revenues deposited to the State Historical Fund. History Colorado is considered a state educational institution, but CCHE has no related administrative authority over the organization.

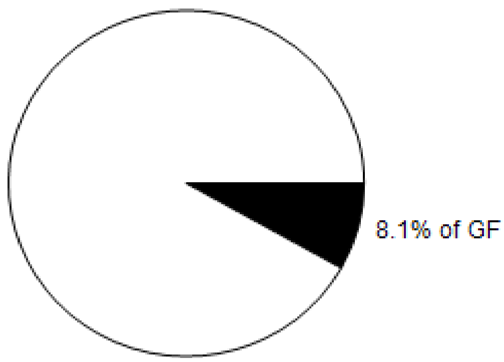
Department Budget: Recent Appropriations

Funding Source	FY 2011-12	FY 2012-13	FY 2013-14	FY 2014-15 *
General Fund	$623,962,700	$628,569,790	$659,062,854	$760,889,619
Cash Funds	1,720,379,975	1,835,273,931	1,978,139,263	1,979,283,382
Reappropriated Funds	550,656,940	552,186,789	576,697,493	635,694,785
Federal Funds	19,014,815	19,113,229	19,290,300	19,701,556
Total Funds	**$2,914,014,430**	**$3,035,143,739**	**$3,233,189,910**	**$3,395,569,342**
Full Time Equiv. Staff	21,490.8	21,458.9	22,842.3	22,853.8

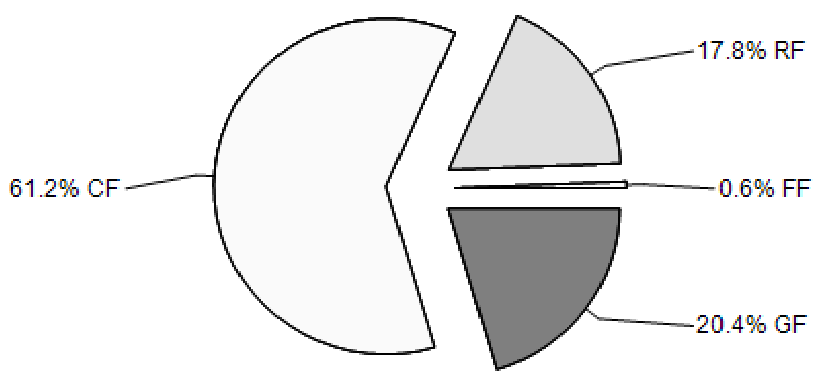
*Requested appropriation.

Department Budget: Graphic Overview

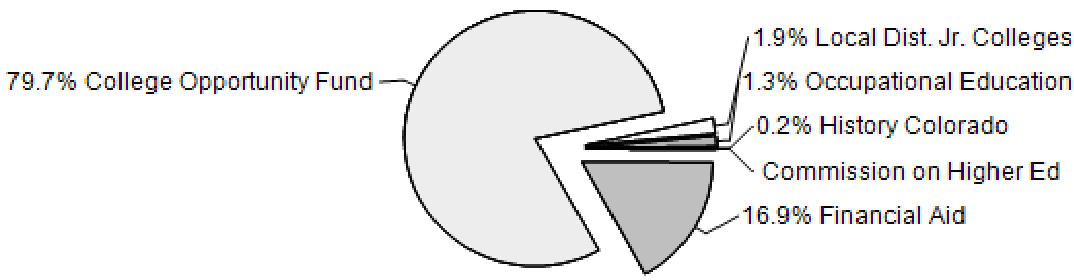
Department's Share of Statewide General Fund



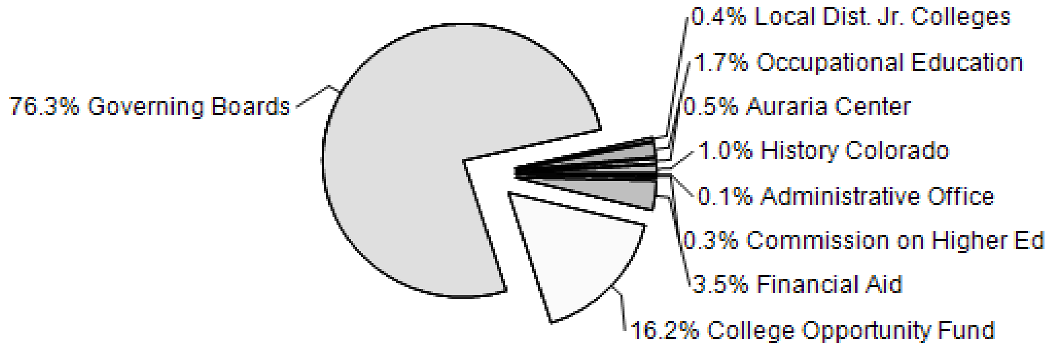
Department Funding Sources



Distribution of General Fund by Division



Distribution of Total Funds by Division

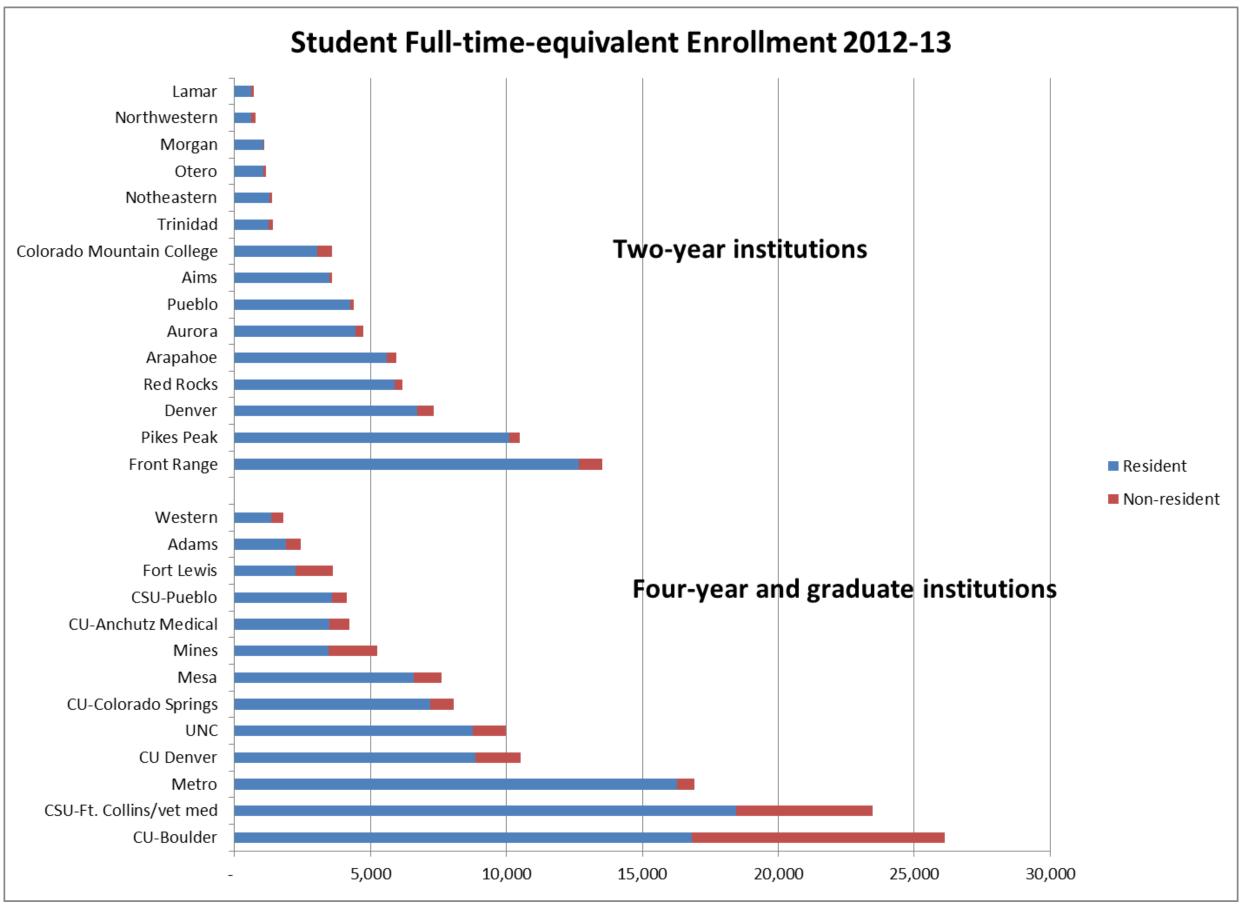


General Factors Driving the Budget

Overview and Organization

The public higher education system serves about 190,000 full-time equivalent students (FTE), representing about 250,000 individuals. About 35.0 percent of student FTE attend 2-year and certificate institutions. These include state-operated community colleges, local district junior colleges that receive regional property tax revenues in addition to state funding, and area vocational schools that offer occupational certificates and serve both secondary and post-secondary students. Students attending institutions that offer baccalaureate and higher degrees are concentrated at the University of Colorado, Colorado State University, and Metropolitan State University of Denver. About 15 percent of all students attending Colorado public higher education institutions are not Colorado residents, although the percentage is much greater at some institutions.

The Colorado Commission on Higher Education (Commission) coordinates the higher education delivery system, including requests for state funding. However, each institution has a governing board that makes policy and budget decisions for the institution.



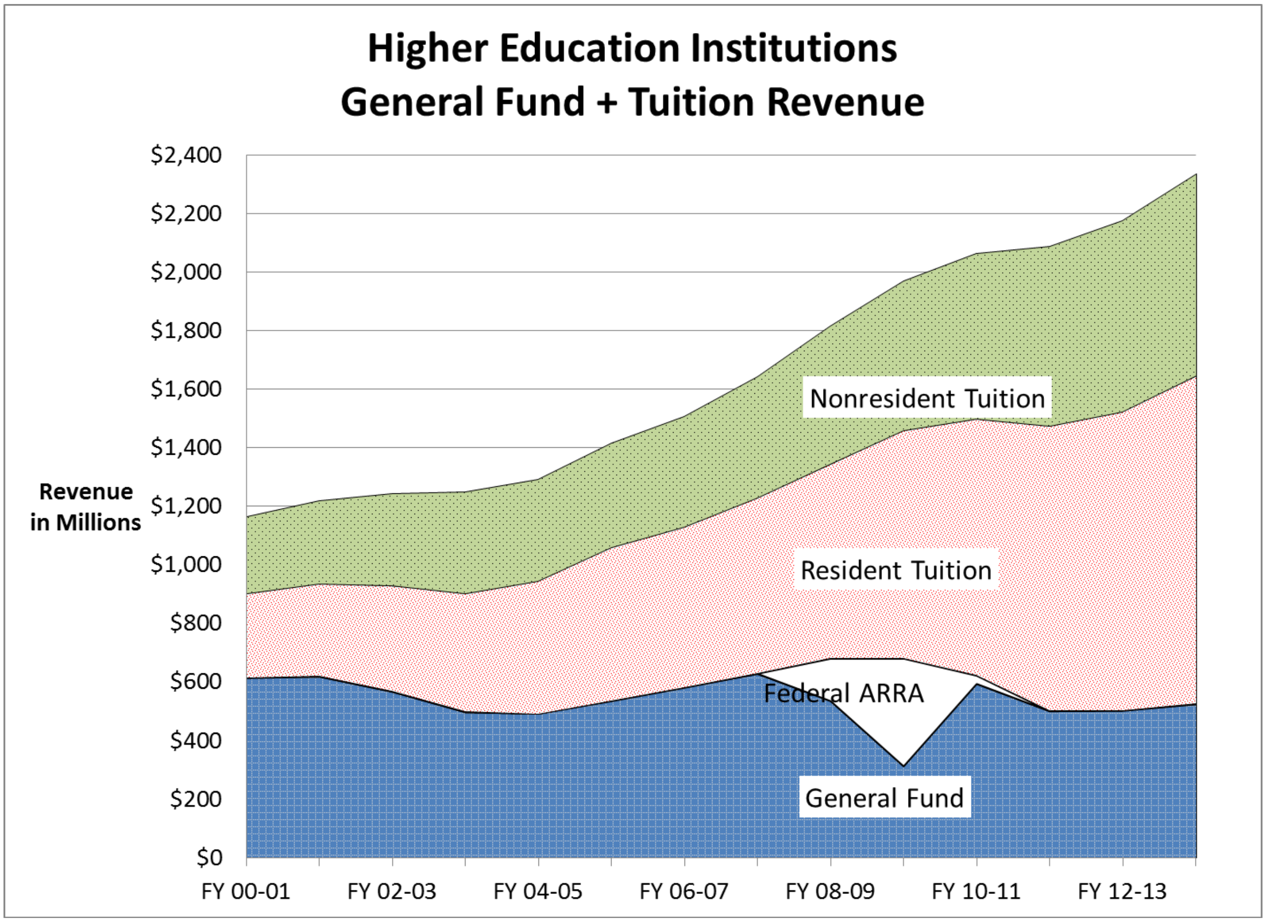
Impact of the Statewide Budget Outlook

The State has historically subsidized higher education at state institutions based on the public benefits of providing educational access to all citizens and promoting a more educated population. An educated population is associated with higher wages, lower unemployment, and lower dependence on public resources. Higher education may also be part of strategies to fill unmet needs in the community, such as nurses or teachers or engineers. Finally, subsidizing higher education is frequently described as a form of economic development for the community, as it attracts business and cultural resources.

While there are many potential benefits to supporting higher education, there are no statutes, constitutional provisions, or federal guidelines requiring specific amounts of state funding per student. As a result, this is one of the budget areas most affected by the availability of state funds. This budget area is also more subject to state-funding adjustments than some others because there is an alternative funding source: individual tuition payments. Colorado has always expected that individuals and families who benefit from higher education will bear at least some portion of the cost. Policymakers differ in the extent to which they believe higher education should be an individual versus a public responsibility. However, limited state funds and the ability to increase tuition have, together, pushed Colorado (and other states) toward a funding model in which the share of higher education costs borne by individuals and families has increased dramatically while state funding has declined.

The chart below shows how statewide General Fund revenues have affected higher education appropriations, as evidenced by the sharp declines in General Fund appropriations for higher education during economic downturns in FY 2002-03 through FY 2004-05, and again in FY 2008-09 through FY 2011-12. The decreases in General Fund appropriations for higher education were disproportionately larger than decreases for other state agencies during the same time frames.

The chart also illustrates how tuition, as well as temporary federal American Recovery and Reinvestment Act (ARRA) funds, have augmented and substituted for General Fund revenues for the higher education institutions. As shown, tuition revenue increases have more-than-compensated for declines in General Fund support since FY 2007-08. Note, however, that this chart does not include adjustments for changes in the number of students served or inflationary factors impacting the cost of providing services.



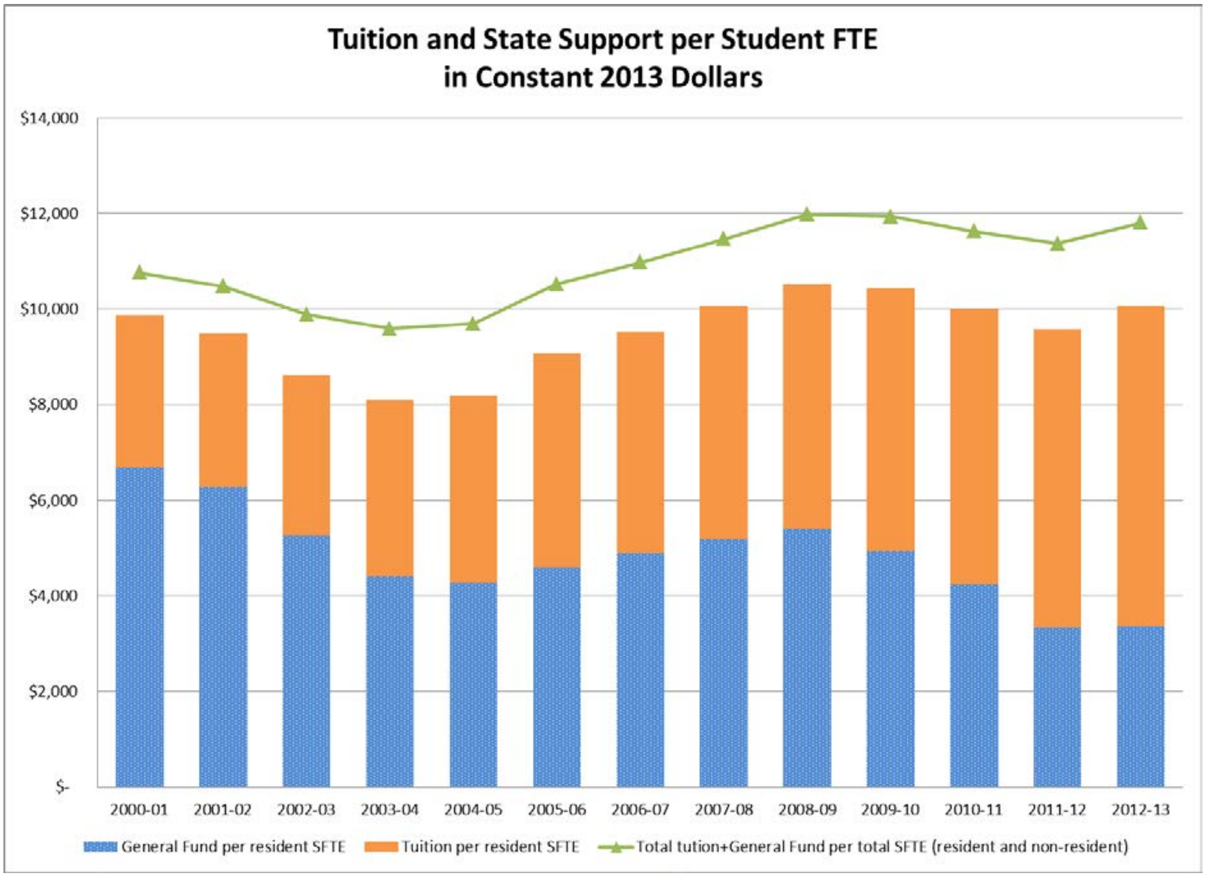
Tuition and Fees

As indicated by the chart above, over time, the share of higher education revenue derived from tuition and fees has increased, while the General Fund share has decreased. Overall public access to higher education is significantly influenced by tuition and fee rates: high rates may discourage participation or may result in high debt loads for those who do participate. Nonetheless, Colorado and other states have often used tuition increases to substitute for higher education General Fund support due to the multiple demands on state General Fund revenue.

The chart below shows the change in General Fund and tuition revenue to the institutions per student since FY 2000-01 after adjusting for inflation (Denver-Boulder-Greeley consumer price index/CPI). As shown:

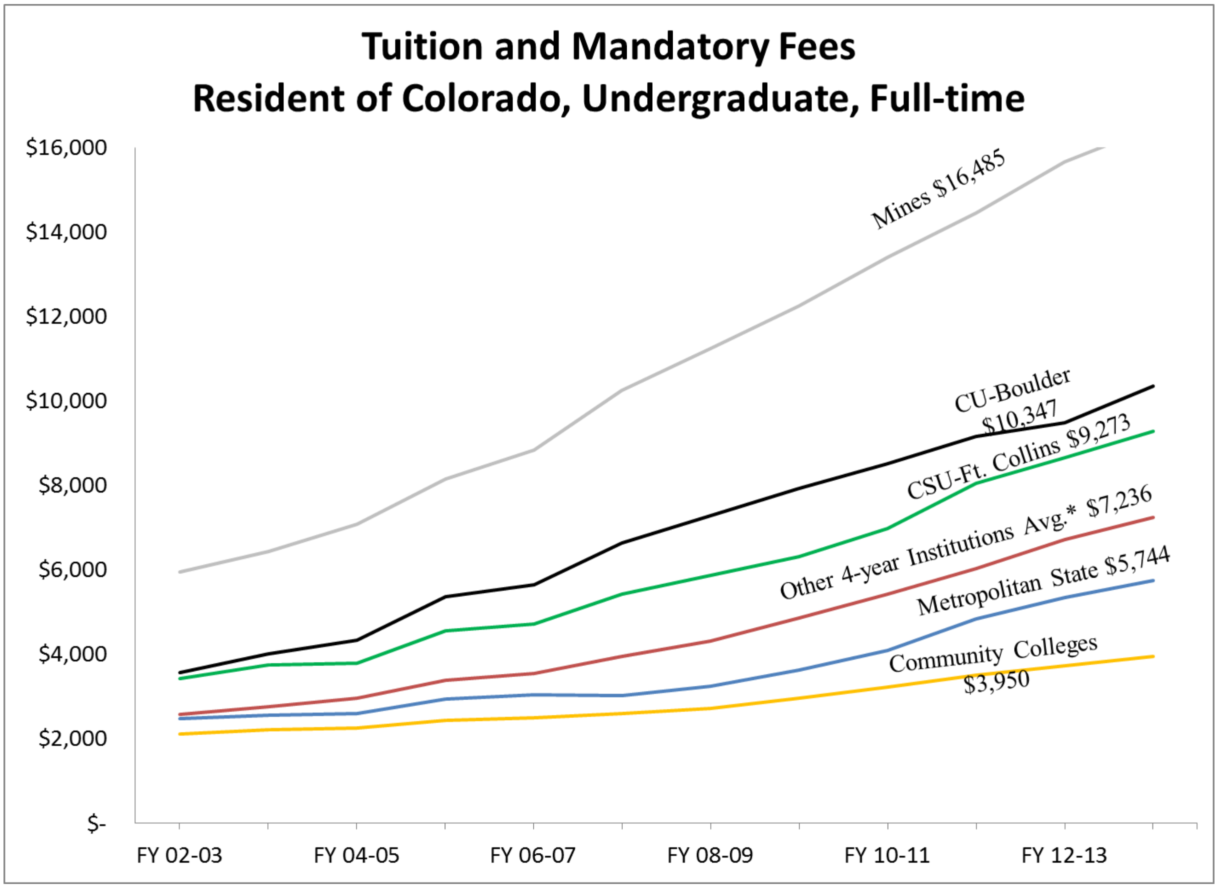
- Overall revenue to the institutions per student (the line on the chart) has increased more rapidly than CPI inflation: there was an increase in per-student revenue of about 10 percent from FY 2000-01 to FY 2012-13 after adjusting for inflation. Total revenue per student is greater than resident revenue per student (the bars on the chart) due to the impact of non-resident tuition revenue. The share of non-resident students has increased over time, effectively subsidizing resident tuition at some institutions.

- Projected revenue to the institutions per *resident* student (bars on the chart) is not far different in FY 2012-13 from FY 2000-01, but the share covered by the student—as opposed to the General Fund—has changed substantially. In FY 2000-01, the General Fund provided about two-thirds of the revenue per resident student; in FY 2012-13, it provided about one-third.



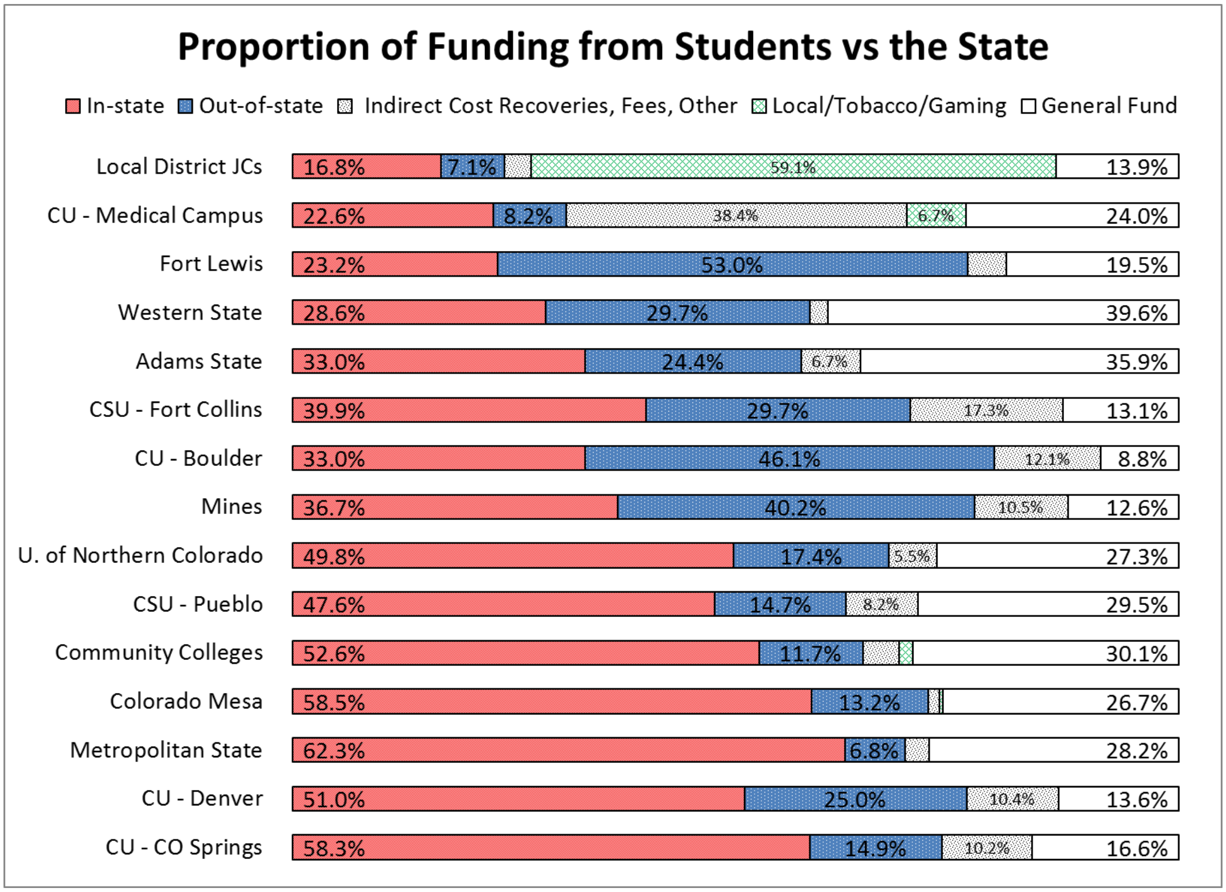
Senate Bill 10-003 temporarily delegated tuition authority to higher education governing boards from FY 2011-12 through FY 2015-16 (five years). During this time frame, governing boards may increase resident undergraduate tuition rates up to 9.0 percent per year, and they may submit a plan to ensure access and affordable tuition for low- and middle-income students to the Commission for permission to implement larger rate increases. When the provisions of S.B. 10-003 expire, the responsibility to set tuition spending authority reverts to the General Assembly [Section 23-5-129 (10), C.R.S.], and the tuition increases used to derive the total spending authority for each governing board will be detailed in a footnote to the Long Bill [Section 23-18-202 (3) (b), C.R.S.].

The chart below shows rates through FY 2013-14. All rates are for students who are full-time (30 credit hours per year), beginning their studies, Colorado resident, undergraduate, and taking liberal arts and sciences courses.



*CSU-Pueblo, Fort Lewis College, University of Northern Colorado, Adams State University, Colorado Mesa University, Western State Colorado University

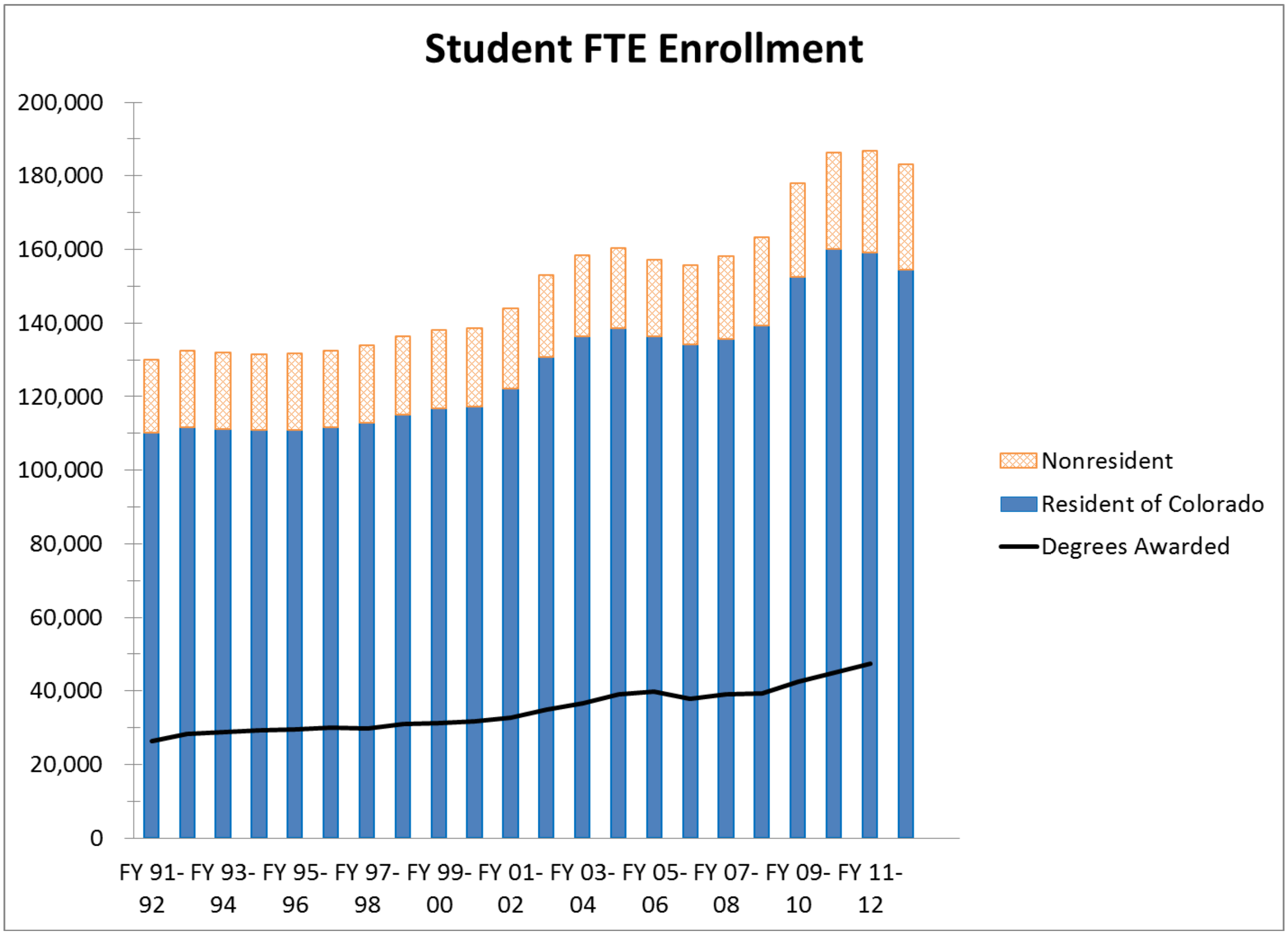
All institutions have experienced a decrease in state support and have addressed this, at least in part, through higher tuition rates. However, the institutions have different abilities to bring in out-of-state student tuition revenue or to raise tuition above that of other institutions based upon their individual missions and the populations they serve. The chart below compares the revenue mix at various state institutions for educational expenditures reported to the General Assembly. Note that this excludes revenue and expenditures for research grants and auxiliary facilities such as dormitories and dining halls.



Enrollment

Enrollment is both a workload and performance measure for campuses, and it affects tuition and fee revenue. For some institutions, nonresident enrollment is important because nonresident tuition helps subsidize resident education. Increases in enrollment also drive costs for faculty, advising, and general operating.

Enrollment tends to be counter-cyclical. In other words, when the economy slows, higher education enrollment grows more rapidly. The following chart reports student FTE since FY 1991-92 (excluding Local District Junior College and Area Vocational School data). Thirty credit hours in a year equals one full-time-equivalent student. The chart also includes a trend line for degrees awarded through the most recent year of data (FY 2011-12). This is an unduplicated count of graduates. The relatively modest enrollment growth in the 1990's and significant growth in the 2000's correlate closely with the economic circumstances of the state during those time frames. As the economy began to improve in FY 2012-13, projected enrollment declined. However, overall enrollment levels are unlikely to decline to pre-recession levels, based on the experience after previous recessions.



Personnel

Higher education governing boards are allowed by statute to determine the number of employees they need, but the appropriations reflect estimates provided by the governing boards of the number of employees at their institutions, which for FY 2013-14 are estimated at 22,451.7 FTE. This doesn't include employees of self-supporting auxiliary programs such as food services, book stores, or housing.

Of the amount state-operated institutions spend on education, approximately two-thirds is spent on salaries and benefits and most of this is spent on instructional faculty. Some higher education FTE such as administrative support and maintenance staff are classified staff for whom salaries and benefits are defined by the state personnel system and the policies of the General Assembly. However, the majority of FTE and personal services expenditures are for exempt staff such as faculty for whom governing boards have control of compensation. The market for tenure-track faculty is national. Pressure to offer compensation to professors that is competitive with peer institutions in other states, and for some degree programs competitive with the private sector, is a significant factor in higher education institution expenditures.

College Opportunity Fund Program

Colorado uses a method of distributing higher education funding that is unique from other states. Instead of appropriating General Fund directly to the institutions for their day-to-day operations, the General Assembly appropriates money into a fund that provides stipends to eligible undergraduate students. In addition, the General Assembly appropriates money for differences in the cost of programs at each institution. This second appropriation for cost differentials gets to the institutions through what are called fee-for-service contracts between the Commission and the governing boards. The sum of stipends and fee-for-service contracts is the state General Fund support provided to each institution for their operations.

The bill that authorized stipends and fee-for-service contracts (S.B. 04-189) also provided a mechanism for designating qualifying state higher education institutions as enterprises under Article X, Section 20 of the Colorado Constitution (TABOR). Revenue, such as tuition, that is generated by enterprises is exempt from the limits imposed by TABOR and has no impact on any refund that may be due pursuant to TABOR. To achieve enterprise status under TABOR, a program must: (1) be a government-owned business; (2) have authority to issue revenue bonds; and (3) receive less than 10 percent of annual revenue from state and local grants. Stipends and fee-for-service contracts are defined in statute as different from a state grant. All of the institutions have been designated as TABOR enterprises.

In practice, once stipends and fee-for-service contracts are paid to a higher education institution the institution makes no distinction between them. Furthermore, despite the stipend/fee-for-service funding structure, the Executive request and General Assembly action have typically focused on total institutional funding levels, with the break-down between fee-for-service and stipend funding a secondary consideration. Consistent with this, when enrollment changes drive mid-year adjustments to institutional stipend revenue, the General Assembly usually modifies institutional fee-for-service contracts so as to hold total funding for each institution at the level initially established for that fiscal year.

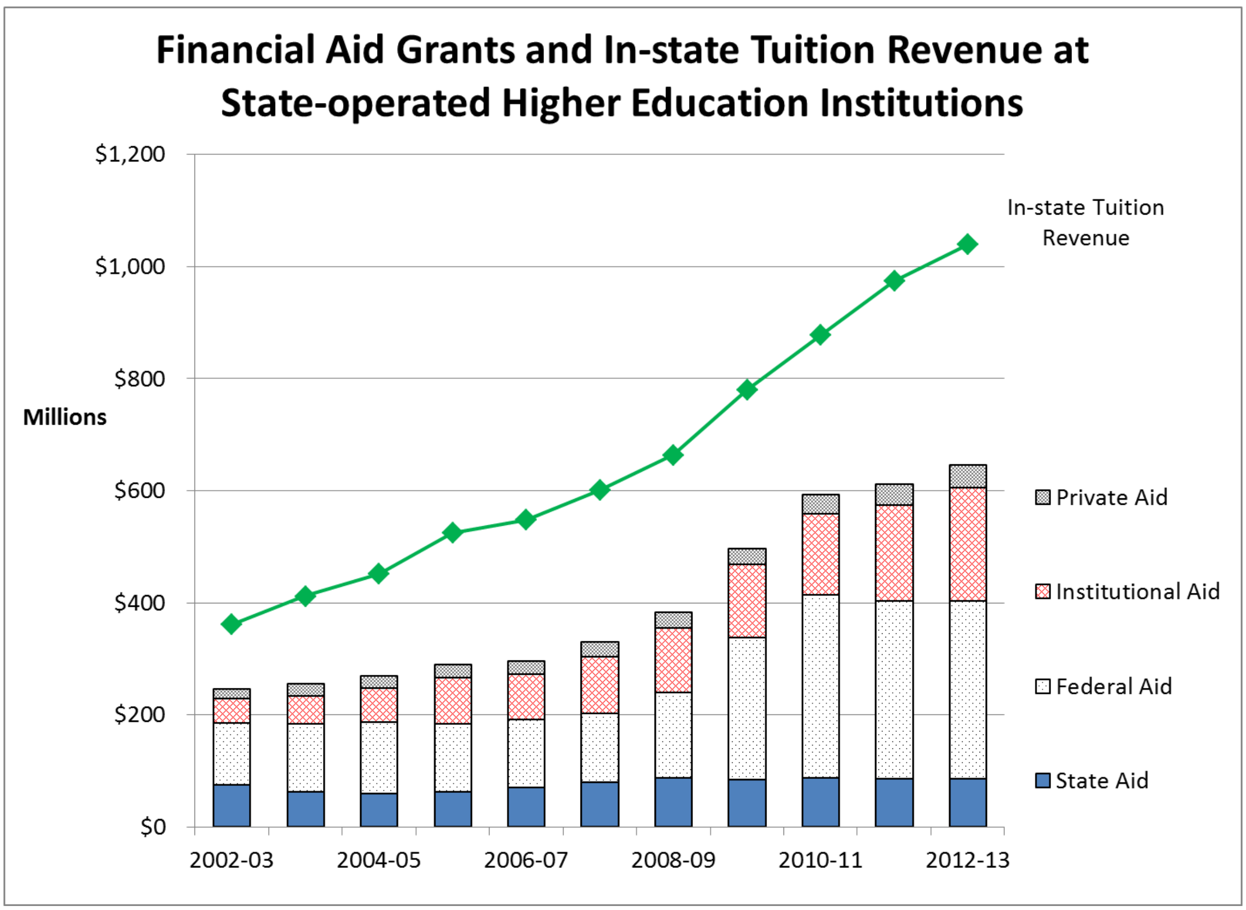
Financial Aid

Of the General Fund appropriations for higher education in FY 2013-14, $111.5 million (16.9 percent) are for financial aid. The majority of the money goes for need based aid and work study. There are also a number of smaller, special purpose financial aid programs. Financial aid funds are appropriated to the CCHE and then allocated to the institutions, including approximately $6.7 million in FY 2012-13 for private institutions, based on formulas that consider financial need at the schools, total student enrollment, and program eligibility criteria.

The financial aid funding identified in state appropriations is only a fraction of the total financial aid available. The federal government provides a significant amount of financial aid for students, the vast majority of which is not reflected in the state budget. The majority of federal grants come through the Pell program for the neediest students. Federal legislation increased the maximum Pell grant for a full-time student to $5,550 in FY 2010-11 and expanded Pell eligibility, resulting in a substantial increase in overall federal funding. However, while the maximum award has been flat since FY 2010-11, eligibility was reduced in FY 2011-12, when year-round Pell grants were eliminated, and FY 2012-13 when the total number of semesters of eligibility was reduced from 18 to 12, access for students who had not yet completed a GED or high school diploma was eliminated, and the income cut-off for assuming a $0 family contribution was reduced. In FY 2012-13, the families of dependent students receiving a full Pell had an average adjusted gross income of $17,094 while the average for students receiving any Pell award was $30,384.

Another source of funding for financial aid is money set aside by the institutions from fundraising and the operating budgets of the schools (largely tuition revenue). There is significant variation in the amount of money available by institution and how students qualify for institutional aid, based on differences in school policies and fundraising. The majority of institutional aid is directed to merit-based aid.

The following graph shows financial aid grants from various sources awarded to students attending state-operated higher education institutions. As an indication of the buying power of financial aid grants, the chart also provides information on total resident tuition revenues collected.



Financial aid pays for expenses related to room, board, transportation, student fees, and learning materials, in addition to tuition. Depending on the institution, these other costs of attendance may dwarf the price of tuition. The total cost of attendance for a resident student in FY 2012-13, including room and board, ranged from $16,975 at some rural community colleges to $28,919 at the Colorado School of Mines.

In order to fill the gap between cost of attendance and available grant funds, students typically rely on loans. In addition to grant funds, the federal government provides low-interest guaranteed loans and tax credits and deductions for tuition. Sixty-nine percent of students graduating from public institutions graduated with debt in FY 2012-13. The average debt for students completing a bachelor's degree was $25,672.

Summary:FY 2013-14 Appropriation & FY 2014-15 Request

Department of Higher Education	Total Funds	General Fund	Cash Funds	Reappropriated Funds	Federal Funds	FTE
FY 2013-14 Appropriation						
SB 13-230 (Long Bill)	3,230,541,694	658,479,148	1,978,070,473	574,701,773	19,290,300	22,840.8
Other legislation	2,648,216	583,706	68,790	1,995,720	0	1.5
TOTAL	**$3,233,189,910**	**$659,062,854**	**$1,978,139,263**	**$576,697,493**	**$19,290,300**	**22,842.3**
FY 2014-15 Requested Appropriation						
FY 2013-14 Appropriation	$3,233,189,910	659,062,854	$1,978,139,263	$576,697,493	$19,290,300	22,842.3
R1 Increased financial aid for Colorado students	40,000,000	40,000,000	0	0	0	0.0
R2 Operational funding increase for public colleges and universities	117,765,395	60,051,510	0	57,713,885	0	0.0
R3 Fort Lewis College Native American Tuition Waiver	836,855	836,855	0	0	0	0.0
R4 Additional funding for Dependent Tuition Assistance	252,000	252,000	0	0	0	0.0
HC1 Increase the future stability of History Colorado	544,964	0	544,964	0	0	0.0
NP1 Secure Colorado Phase II	18,296	0	17,747	549	0	0.0
NP2 Eliminate redundant applications	11,698	0	11,698	0	0	0.0
NP3 Network resiliency	2,945	0	2,857	88	0	0.0
NP4 IT service management ecosystem	13,654	0	13,654	0	0	0.0
NP5 IT technical development	1,018	0	1,018	0	0	0.0
NP6 Constitutionally required increase for categorical programs	419,708	0	0	419,708	0	0.0
Annualize prior year actions	1,411,340	686,400	35,000	689,940	0	11.5
Centrally appropriated line items	1,101,559	0	517,181	173,122	411,256	0.0
TOTAL	**$3,395,569,342**	**$760,889,619**	**$1,979,283,382**	**$635,694,785**	**$19,701,556**	**22,853.8**
Increase/(Decrease)	$162,379,432	$101,826,765	$1,144,119	$58,997,292	$411,256	11.5
Percentage Change	5.0%	15.5%	0.1%	10.2%	2.1%	0.1%

R1 Increased financial aid for Colorado students: The request includes an increase of $40,000,000 General Fund (41.8 percent) for financial aid programs. This includes $30,000,000 for need based grants (37.9 percent increase), $5,000,000 for work study (30.4 percent increase), and $5,000,000 for merit based grants (new appropriation; no funding has been available for merit based grants since FY 2008-09). Financial aid funding is distributed among governing boards based on policies adopted by the Colorado Commission on Higher Education (CCHE). The CCHE currently allocates need-based aid based on the number of Pell-eligible students at each public higher education institution, with per-student amounts increasing from freshman through senior year and decreasing for fifth-year seniors. New allocation methodologies would be developed for work study and merit based aid. Although allocations are determined by CCHE, institutions have flexibility in adopting and applying their own financial aid policies.

R2 Operational funding increase for public colleges and universities: The request includes an increase of $60,051,510 General Fund (11.0 percent) for public institutions of higher education. The requested increase is allocated proportionately among the institutions, so that each governing board receives an 11.0 percent increase to its FY 2013-14 funding base. The request indicates that the Governor has set a hard cap of no more than 6.0 percent growth in tuition rates associated with this proposed General Fund increase. Staff understands that the governing boards have agreed to this, although there has been no formal communication on this point from the governing boards. The request incorporates an increase of $8,331,960 for College Opportunity Fund Program stipends for students attending public institutions (reflecting an increase from $64 to $66 per credit hour), $49,381,925 in College Opportunity Fund Program fee-for-service contracts with the governing boards of public institutions, $2,286,115 in General Fund appropriations for the local district junior colleges and area vocational schools, and $51,510 for College Opportunity Fund Program stipends for eligible students attending private institutions.

R3 Fort Lewis College Native American Tuition Waiver: The request includes an increase of $836,855 General Fund for the Fort Lewis College Native American tuition waiver, bringing the total to $15,303,085 for the program. This requested increase is mandated by Section 23-52-105 (1) (b) (I), C.R.S., which requires the General Assembly to fund 100 percent of the tuition obligations for qualifying Native American students attending Fort Lewis College. Funding for the tuition waiver is made one year in arrears and is calculated based on the prior year enrollment estimates.

R4 Additional funding for Dependent Tuition Assistance: The request includes an increase of $252,000 General Fund (60 percent) for the Dependent Tuition Assistance Program. Under this program, the State pays tuition and room and board costs for qualified dependents of deceased or permanently disabled national guardsmen, law enforcement officers, or firefighters. The increase is requested to accommodate a projected increase in the number of eligible students and per-student costs. In FY 2012-13, the program served 52.5 students at an average cost of $9,328 per student.

HC1 Increase the future stability of History Colorado: History Colorado requests an increase of $544,964 cash funds for operation of the History Colorado Center and regional museums. This includes $499,964 cash funds from museum earned revenue to be used for business development and public outreach and $45,000 Limited Gaming cash funds for electric utility costs at regional museums.

NP1 Secure Colorado Phase II: The request includes an increase for the Department's share of a request from the Governor's Office of Information Technology (OIT) to improve cyber-security.

NP2 Eliminate redundant applications: The request includes an increase for the Department's share of an OIT request to eliminate redundant information technology applications throughout state government.

NP3 Network resiliency: The request includes an increase for the Department's share of an OIT request to augment and upgrade the state's aging wide area network (the multi-use network).

NP4 IT service management ecosystem: The request includes an increase for the Department's share of an OIT request for software, licensing, training and professional services to complete and implement a comprehensive enterprise service management system.

NP5 IT technical development: The request includes an increase for the Department's share of an OIT request for IT technical training and certification for OIT staff.

NP6 Constitutionally required increase for categorical programs: The request includes an increase of $419,708 reappropriated funds (transfer from the Department of Education) for secondary career and technical education programs. The reappropriated funds originate as General Fund or State Education Funds in the Department of Education.

Annualize prior year actions: The request annualizes the impact of FY 2013-new legislation, including S.B. 13-033 (In state classification at institutions of higher education) which requires an increase of $930,000, including $465,000 General Fund and S.B. 13-1165 (Manufacturing career pathway) which requires an increase of $442,800 including $221,400 General Fund and 11.5 FTE. The request also annualizes FY 2013-14 requests R7 (data and research positions at DHE), R6 (WICHE dues), and HC1 (Cumbres and Toltec railroad operations).

Centrally appropriated line items: The request includes adjustments to centrally appropriated line items for the following: state contributions for health, life, and dental benefits; short-term disability; supplemental state contributions to the Public Employees Retirement Association (PERA) pension fund; salary survey; merit pay; workers compensation; administrative law judges; payment to risk management and property funds; purchase of services from computer center; management and administration of OIT; information security technology; Colorado state network; and leased space. Centrally appropriated line items in this department support the operations of the Colorado Commission on Higher Education, Department of Higher Education central offices, and History Colorado but do not fund the higher education institutions.

Issue: Financial Health of Public Higher Education Institutions

In FY 2011-12, six out of 10 of Colorado's governing boards were in relatively weak financial health, based on Composite Financial Index scores commonly used to assess financial health in this sector. Two small institutions—Adams State University and Western State Colorado University—had scores below 0, indicating a need to "assess institutional viability to survive". Both institutions are highly leveraged.

SUMMARY:

- In light of news coverage indicating that private higher education institutions nationwide are struggling financially, staff analyzed the financial health of Colorado's public institutions.

- Using ratios that are commonly used in the higher education sector, staff found that, in FY 2011-12, six out of 10 of Colorado's governing boards had Composite Financial Index scores below the threshold score for "moderate financial health".

- Two small institutions—Adams State University and Western State Colorado University—had scores below 0, indicating a need to "assess institutional viability to survive". A more in-depth analysis of these institutions for the period from FY 2008-09 to FY 2012-13 indicates that both institutions are highly leveraged and financially at risk.

RECOMMENDATIONS:

- Both the executive and legislative branches should continue to carefully monitor the financial health of Adams State and Western State.
- The JBC should implement a more robust process for reviewing requests to issue bonds under the Higher Education Revenue Intercept Bond program.
- The General Assembly should explore whether any of the state's larger higher education systems are interested in merging with the smaller institutions highlighted in this issue, given the larger systems' economies of scale and resources for implementing changes in a challenging financial environment.

DISCUSSION:

A variety of news articles over the past several months have highlighted the financial challenges facing private higher education institutions. Forbes ranked the financial health of 925 private non-profit colleges in August 2013, and gave the majority a "C" or "D".[1] The U.S. Department

[1] "Is Your College Going Broke? The Most and Least Financially Fit Schools in America", *Forbes*, August 13, 2013.

of Education released its FY 2010-11 financial health test results for private institutions in July 2013, on which more than 150 institutions were found to have failed.[2]

Recognizing that Colorado's public institutions are increasingly dependent upon tuition revenue and thus may face issues similar to private institutions, staff began an analysis of the financial health of Colorado's public institutions. **This analysis indicates that Colorado's smaller public 4-year institutions are struggling and raises questions about the long-term sustainability of some institutions.** The General Assembly should be concerned about this, both because these institutions play important roles in their local economies and because these institutions have large debt loads which the State of Colorado is backing via the Higher Education Revenue Bond Intercept program.

Methodology and the Composite Financial Index

- Staff followed an approach outlined in *Strategic Financial Analysis for Higher Education (Sixth Edition)* by Praeger, Sealy and Co., KPMG, and BearingPoint, 2005.[3] The ratios and composite financial index outlined in this report are used by many higher education institutions, as well as accrediting bodies, to assess institutions' fiscal health.

- Staff used institutions' annual audited financial statements for FY 2011-12 to populate a spreadsheet with key variables and then distributed the spreadsheet to the institutions in October 2012 to ensure staff had captured the key data accurately. Corrections were incorporated before final ratios and composite index figures were calculated.

- In this approach, four key ratios are used to measure the public institution's financial resources, debt, and financial performance. These are outlined in the table below. Staff followed the detailed instructions included in the book for calculating these ratios for public institutions. The ratios incorporate the performance of institutions' foundations, as well as the institutions themselves.

Ratio Name	What it Measures	Calculation	As described in *Strategic Financial Analysis for Higher Education, Sixth Edition*
Primary Reserve Ratio	Resource Sufficiency	expendable assets/ annual expenses	"Expendable net assets represent those assets that the institution can access relatively quickly and spend to satisfy its debt obligations. This ratio provides a snapshot of financial strength and flexibility by indicating *how long the institution could function using is expendable reserves* without relying on additional net assets generated by operations." (p. 56)
Viability Ratio	Debt Management	expendable assets/ debt	"The Viability Ratio measures one of the most basic determinants of clear financial health: the *availability of expendable net assets to cover debt* should the institution need to settle its obligations

[2] Blumenstyk, "More than 150 Private Colleges Flunked Financial-Health Test in 2011, U.S. Says", *Chronicle of Higher Education*, July 23, 2013.
[3] http://www.prager.com/Public/raihe6.pdf A 7th edition (2010) is also available, but the key ratios have not changed.

Ratio Name	What it Measures	Calculation	As described in *Strategic Financial Analysis for Higher Education, Sixth Edition*
			as of the balance sheet date." (p. 63)
Return on Net Assets Ratio	Asset Performance	change in net assets/ total net assets	"This ratio determines *whether the institution is financially better off than in previous years* by measuring total economic return. This ratio furnishes a broad measure of the change in an institution's total wealth over a single year and is based on the level and change in total net assets, regardless of asset classification." (p. 73)
Net Operating Revenues Ratio	Operating Results	Net income or loss/ total annual revenues	"This ratio is a primary indicator, explaining how the surplus from operating activities affects the behavior of the other three core ratios. *A large surplus or deficit directly impacts the amount of funds an institution adds to or subtracts from net assets…*" (p. 84)

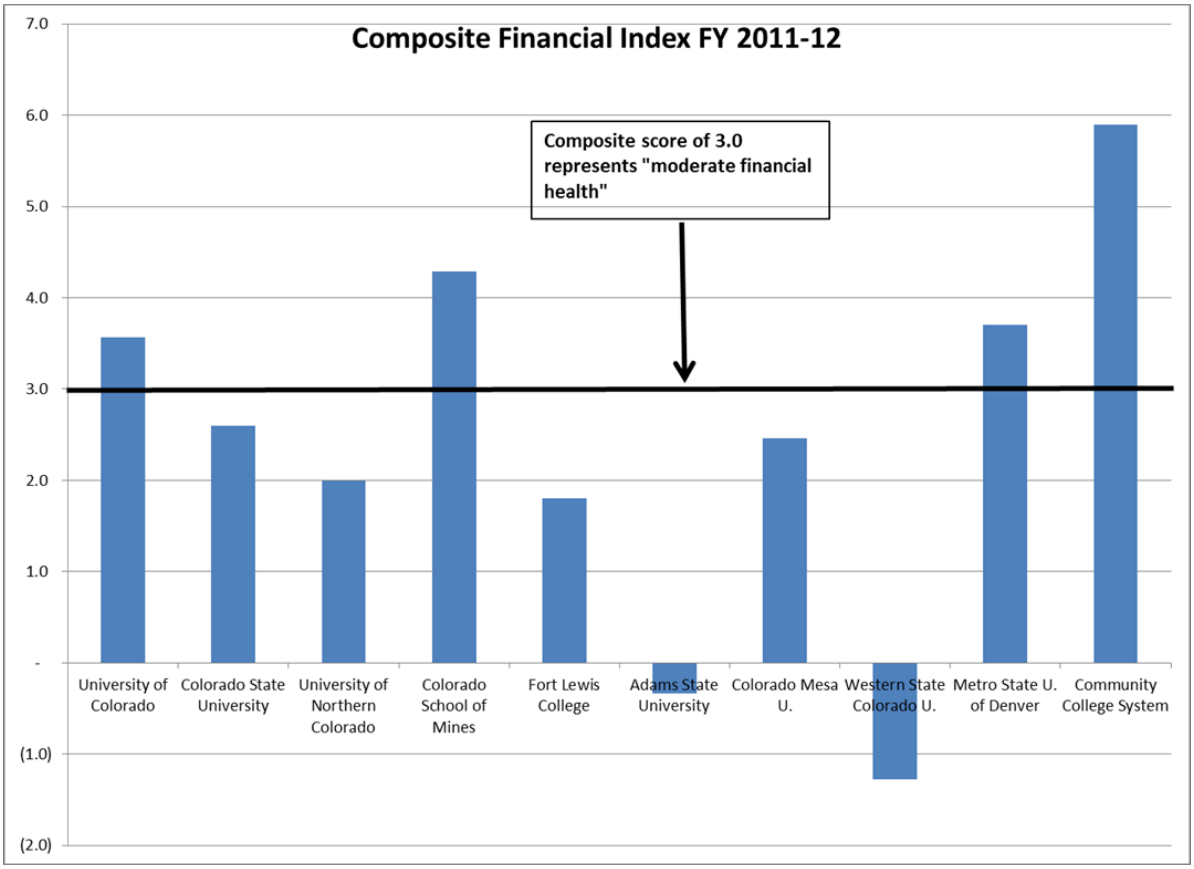
- Staff has included the raw ratio results in some of the analysis below. However, staff also calculated a Composite Financial Index (CFI) for each institution following the methodology outlined in *Strategic Financial Analysis for Higher Education.* To arrive at the CFI, each of the four ratios is converted to a strength factor along a common scale. Then, each of the strength factors is weighted to provide a total index score.

	Conversion to common scale "strength factors" (divide raw ratio by value below)	Weight factors for CFI (weights allocated to each scaled value to produce the composite CFI)
Resource Sufficiency: Primary Reserve Ratio	0.133	35.0%
Debt Management: Viability Ratio	0.417	35.0%
Asset Performance: Return on Net Assets Ratio	0.020	20.0%
Operating Results: Net Operating Revenues Ratio	0.013	10.0%

Strength factors and the CFI are numbers are on a 10 point scale, described as follows:

1.0 = very little financial health
3.0 = the "threshold value", a relatively stronger position
10.0 = the top score within range for an institution

The chart below summarizes the results for all of the governing boards.



As reflected in the chart, many of Colorado's institutions appeared, as of FY 2011-12, to be in moderate financial health at best, but **two institutions stand out for CFI's in the negative range: Adams State University and Western State Colorado University. As indicated in *Strategic Financial Analysis*, for an institution with a CFI ranging from (1.0) to 1.0, the analyst (and the institution's Board of Trustees) should "assess institutional viability to survive".**

An additional, separate measure of institutional financial health is the credit rating for the institution by the bond ratings agencies Standard and Poor's and Moody's. The chart below shows current ratings. Notably, *Western State Colorado University was recently downgraded by both ratings agencies.*

	Moody's	S&P
University of Colorado	AA2	AA-
Colorado State University	AA3	A+
University of Northern Colorado	A1	A
Colorado School of Mines	A1	A
Fort Lewis College	A2	no rating available
Adams State University	A2	no rating available
Colorado Mesa U.	A1	no rating available
Western State Colorado U.	**Baa1**	**BBB+**
Metro State U. of Denver	A1	A
Community College System	AA3	no rating available

Recognizing that a single year's financial data might provide a skewed picture, staff collected data from prior year audit statements and requested unaudited FY 2012-13 financial statement data from Adams and Western. **Based on this preliminary information (which does not include foundation data), financial problems appear to have continued in FY 2012-13 for both Adams and Western.**

Additional Background on Adams State University and Western State Colorado University
Adams State University is located in Alamosa, Colorado and draws many of its students from the region. Founded in 1921 as a teacher's college, it focuses on undergraduate students, with a total FY 2012-13 enrollment of 2,442, including 1,903 Colorado residents. Compared to other Colorado institutions, Adams has a relatively high percentage of students qualifying for a federal Pell grant (56 percent), and it was Colorado's first higher education institution to be federally designated as a Hispanic Serving Institution.

Western State Colorado University is located in Gunnison, Colorado and offers a liberal arts program in a scenic mountain location. It is Colorado smallest 4-year institution, with a student population of 1,792 in FY 2012-13, including 1,336 Colorado residents. Western's student population is, on average, more affluent than Adams, with 31 percent qualifying for the federal Pell grant.

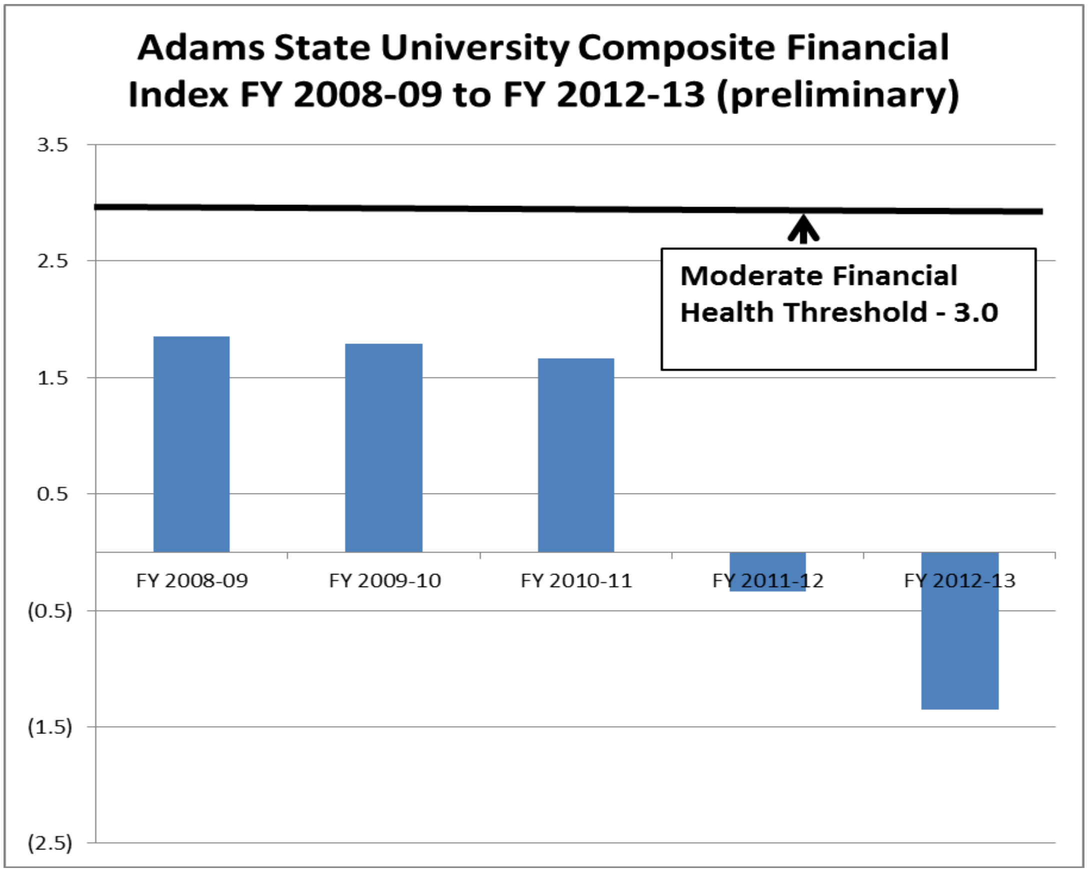
As Colorado's two smallest 4-year schools, Western and Adams depend more heavily on the General Fund than other state institutions. In FY 2012-13, General Fund comprised 35.9 percent of Adams general educational budget and 39.6 percent of Western's general educational budget. The General Fund appropriation for Adams in FY 2013-14 was $11.6 million and the appropriation for Western was $9.5 million. These figures represent reductions in state support of 20.7 and 21.7 percent, respectively, since FY 2008-09.

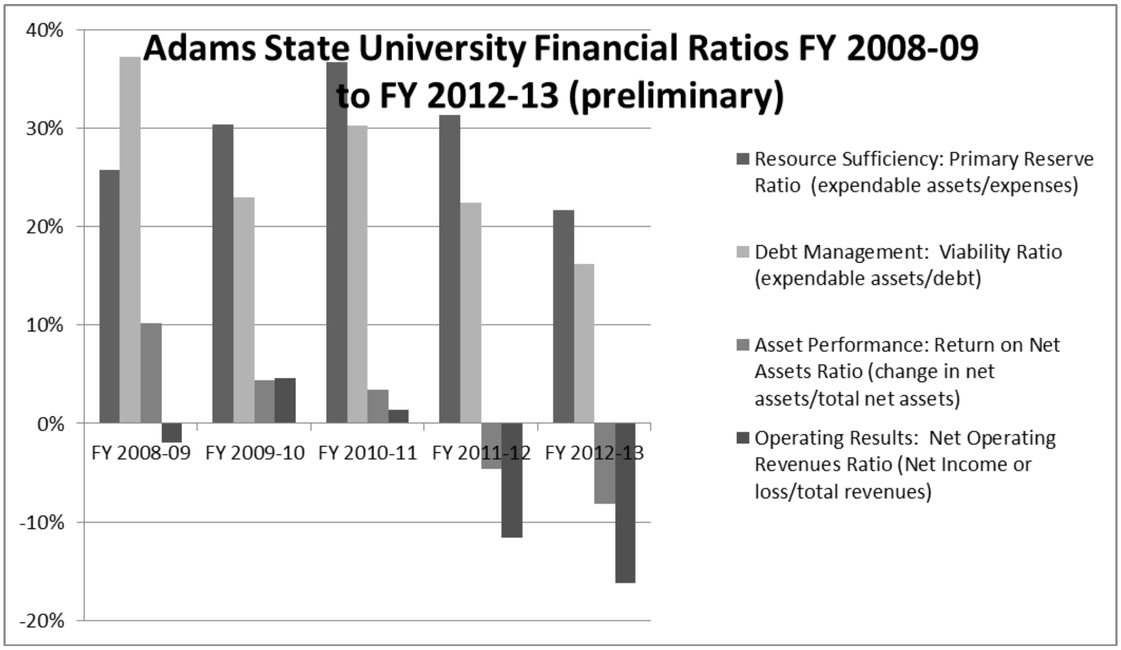
A notable difference between the two institutions is that Adams enrollment increased by 27 percent between FY 2008-09 and FY 2012-13, while Western's declined by 4.4 percent. However, Adams enrollment has begun to slip as the peak of the recession has passed: enrollment fell slightly in FY 2012-13 and also appears to be down for FY 2013-14. *In contrast with virtually every other institution of higher education, Western's enrollment has been in decline since the mid-1990s.* Between FY 1996-97 and FY 2012-13, enrollment fell by 488 (21.4 percent).

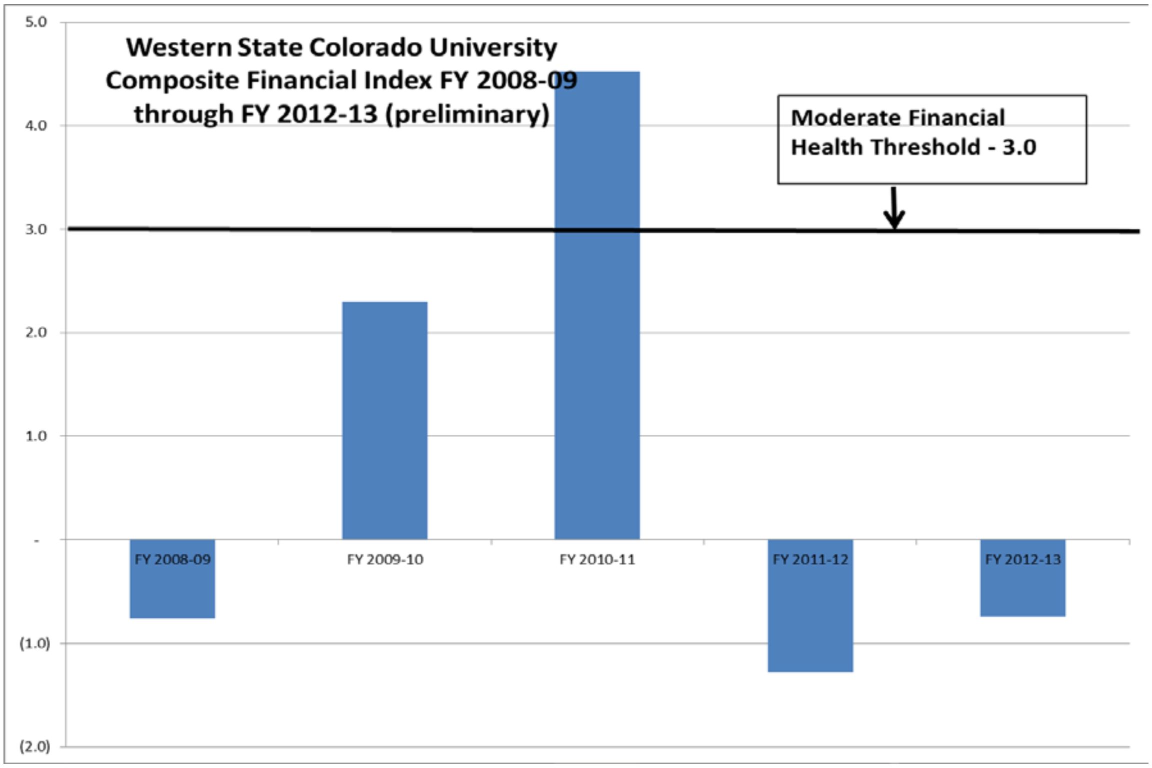
New construction, as well as reductions in state support, have driven substantial tuition increases at both institutions. For both institutions, tuition and fees in FY 2013-14 are almost double tuition and fees in FY 2008-09. At Adams, tuition increased from $3,790 in FY 2008-09 to $7,449 in FY 2013-14. Western's tuition and fees similarly increased from $3,778 in FY 2008-09 to $7,343 in FY 2013-14. These increases are heavily based on increased student fees. By FY 2013-14, $2,577 of Adams overall tuition and fees was based on fees, while at Western the figure was $2,068. For comparison, student fees at CU Boulder and CSU Ft. Collins were $1,587 and $1,779 respectively, with tuition representing a far larger share of overall per-student charges.

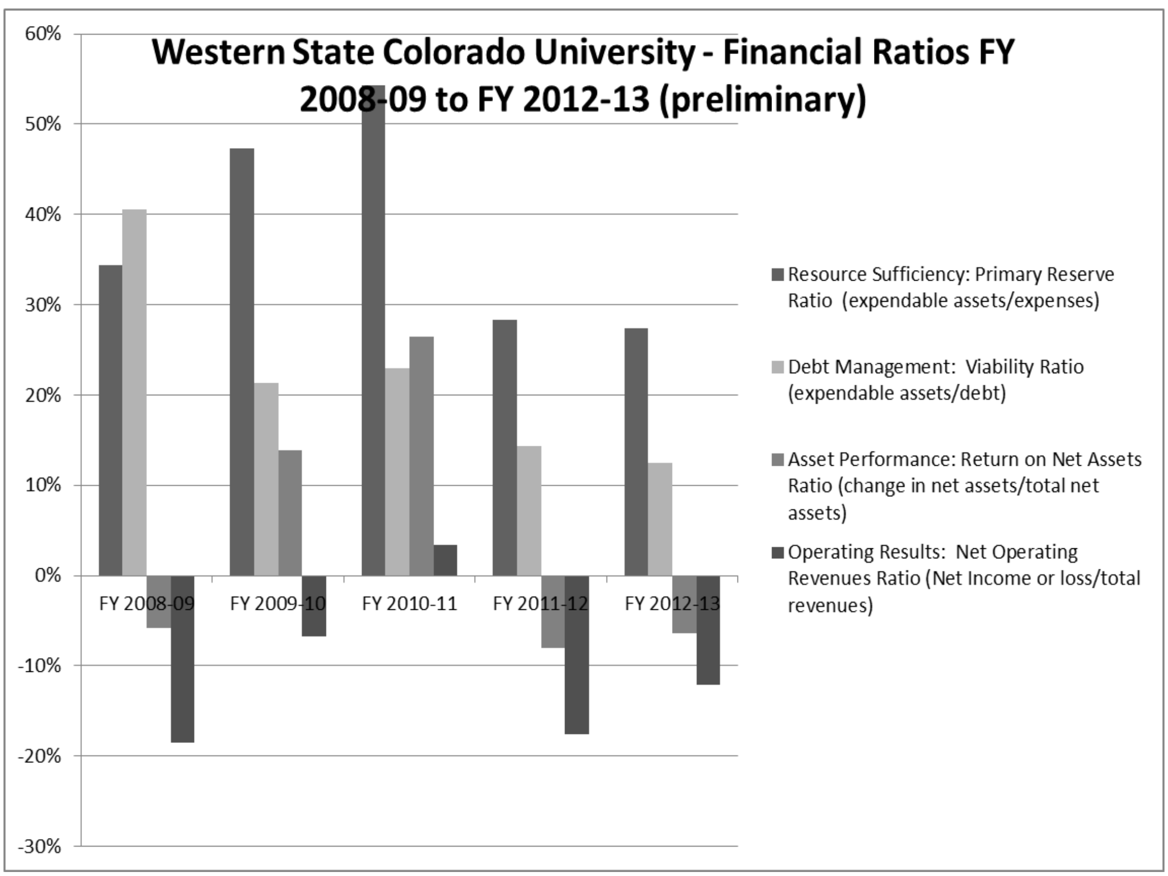
Both Western and Adams have spent aggressively on cash-funded new construction in recent years. Adams touts $65 million in recent new infrastructure investments, and its financial statements reflect $73.4 million in bonds and leases payable issued between 2009 and 2012. This represents about $30,000 per Adams State student. The Western State campus is also filled with handsome new buildings. Western's financial statements reflect $96.5 million in bonds payable as of June 2012, when foundation debt is included. This represents almost $54,000 per student. Virtually all of this debt was issued between 2009 and 2011, with additional bonds issued in 2012 through arrangement between the City of Gunnison and the Western State College foundation. Payments on Adam's debt extend through 2042 and on Western's through 2047.

The charts below reflect the CFI for each institution over a period of five years, as well as the raw component ratios that feed into the CFI. Note that the FY 2012-13 figures are based on *unaudited* end of year statements and that, unlike the figures for the prior years, do not include data for the institutional foundations. *Though final ratios for FY 2012-13 will be somewhat different, staff expects that they will be similar to those shown.*


Adams State University Composite Financial Index FY 2008-09 to FY 2012-13 (preliminary)
3.5
2.5
1.5
0.5
(0.5)
(1.5)
(2.5)
Moderate Financial Health Threshold - 3.0
FY 2008-09
FY 2009-10
FY 2010-11
FY 2011-12
FY 2012-13


Adams State University Financial Ratios FY 2008-09 to FY 2012-13 (preliminary)
40%
30%
20%
10%
0%
-10%
-20%
FY 2008-09
FY 2009-10
FY 2010-11
FY 2011-12
FY 2012-13
Resource Sufficiency: Primary Reserve Ratio (expendable assets/expenses)
Debt Management: Viability Ratio (expendable assets/debt)
Asset Performance: Return on Net Assets Ratio (change in net assets/total net assets)
Operating Results: Net Operating Revenues Ratio (Net Income or loss/total revenues)


Western State Colorado University Composite Financial Index FY 2008-09 through FY 2012-13 (preliminary)
Moderate Financial Health Threshold - 3.0
5.0
4.0
3.0
2.0
1.0
-
(1.0)
(2.0)
FY 2008-09
FY 2009-10
FY 2010-11
FY 2011-12
FY 2012-13


Western State Colorado University - Financial Ratios FY 2008-09 to FY 2012-13 (preliminary)
60%
50%
40%
30%
20%
10%
0%
-10%
-20%
-30%
FY 2008-09
FY 2009-10
FY 2010-11
FY 2011-12
FY 2012-13
Resource Sufficiency: Primary Reserve Ratio (expendable assets/expenses)
Debt Management: Viability Ratio (expendable assets/debt)
Asset Performance: Return on Net Assets Ratio (change in net assets/total net assets)
Operating Results: Net Operating Revenues Ratio (Net Income or loss/total revenues)

In response to staff questions, staff at the two institutions have noted that:

- Some of the operating losses within the last few years have been planned. Faced with sharp declines in state support, both institutions recognized that they would rely more on tuition revenue in the future but could only increase tuition revenue so much in a particular year. Thus, they first built up and then spent down cash reserves. This can be seen in strong primary reserve ratios in FY 2010-11, followed by operating losses in FY 2011-12 when state support fell sharply, tuition could not fully make up the difference, and the institutions relied on the cash they had set aside.

- Both of these institutions were particularly reliant on General Fund before the recession, making the adjustment to lower state support harder.

- Small institutions must still face many of the fixed overhead costs of larger institutions, without the economies of scale.

- Higher education institutions have been in an "arms race" to attract students, leading to heavy spending on new buildings. Because state support has not been available for maintenance or new construction, they have leveraged themselves, issuing bonds in large amounts. As they begin to depreciate their new construction, their books show operating losses because they cannot raise sufficient additional revenue to cover the depreciation. At the same time, they must cover capital debt payments. *For FY 2012-13, Adams reflects depreciation of $6.4 million and interest expense on its capital debt of $3.4 million. These two components represent about 18 percent of Adam's total operating and non-operating expenditures of $54.1 million for the year. For FY 2012-13, Western reflects depreciation of $5.4 million and interest expense of $2.6 million, representing 20 percent of total operating and non-operating expenditures of $40.1 million (excluding foundation debt).*

- At least at Adams, falling enrollment in FY 2012-13 exacerbated the problem, as it did not hit enrollment targets. Enrollment at Western State has been falling since the mid-1990s. Staff assumes that substantial new plant investments at both institutions were expected to stabilize or build enrollment, but do not appear to have had that effect to-date, particularly at Western.

Staff Recommendations

Continue to Monitor. The General Assembly (and CCHE and the Governor) need to watch this situation carefully. Both institutions have "unqualified" financial statements, *i.e*, they are going concerns and are certainly not facing imminent collapse. However, they both appear to be at significant risk.

Both institutions are highly leveraged and have student populations and financial profiles that are "squeezing" them. They are not unique in this. The *Wall Street Journal* recently reported that Moody's Investors Service survey of 300 schools found that nearly half of the nation's colleges and universities are no longer generating enough tuition to keep pace with inflation.[4] Students and families are conscious of growing debt loads and have become price-sensitive, making it harder for mid-level, regional institutions to continue their rapid tuition increases. There have also been declines in enrollment nationwide.[5] As the economy improves, some of the unemployed population that had returned to higher education for retraining may go directly into the job market. The national cohort of high school graduates is also somewhat smaller than in prior years, reducing the pool of potential students.

The JBC Should Pay More Attention to Revenue Bond Intercept Program Requests

Arguably, neither Western nor Adams should have become as leveraged as they currently are. Higher education cash-funded construction projects are subject to review and approval by CCHE and the Capital Development Committee (CDC). Projects supported under the Revenue Bond Intercept program are also subject to review by the JBC. *At the JBC, the process for approving Revenue Bond Intercept Program requests has often seemed perfunctory. It should not be.*

Pursuant to Section 23-11-106 (10) (b), C.R.S. (most recently modified in S.B. 13-099), to qualify for the Revenue Bond Intercept Program, an institution must have:

(1) A credit rating in one of the three highest categories from a nationally recognized statistical rating organization
(2) A debt service coverage ratio of at least 1.5x (net revenue available for debt service/annual debt service subject to this article)
(3) Pledged revenues for the issue of not less that the net revenues of auxiliaries; 10% of tuition if an enterprise; indirect cost recovery revenues; facility construction fees designated for bond repayment; and student fees and revenues pledged to bondholders.

If an institution meets these requirements and participates in the Program, and if the institution indicates that it will fail to meet the required payment, the State Treasurer makes the payment, and the amount owed is then withheld from the institution's fee-for-service contract, from any other state support for the institution, and from any unpledged tuition moneys collected by the institution. Revenue Bond Intercept projects receive lower interest rates because they use the state's credit rating—rather than the institution's—when issuing bonds.

Statute regarding the Revenue Bond Intercept Program was tightened in 2013, with changes that will exclude Western from further borrowing under the program. However, Adams and other institutions still have access to the program. To staff's knowledge, the CDC has never focused its attention on issues such as how leveraged an institution is when determining whether to approve a project on an institution's cash-funded list. *As the JBC has specific statutory authority to review these projects, staff recommends that JBC staff and the JBC apply a more robust process for reviewing requests that includes examining the institution's existing debt load, enrollment trends, and credit rating before approving additional borrowing on the state's credit.*

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[4] Belkin, "Tuition Crunch Takes Big Toll: Net Revenue at Nearly Half of Colleges Loses Ground to Inflation in New Survey, Wall Street Journal, November 22, 2013.

[5] Lederman, "Enrollment Decline Picks Up Speed", Inside Higher Ed, May 17, 2013. http://www.insidehighered.com/news/2013/05/17/data-show-increasing-pace-college-enrollment-declines

Explore Whether Small Institutions Can or Should Be Merged Back into Larger Systems

Prior to 2003, Colorado operated a system of state colleges that included Adams, Mesa, and Western. House Bill 03-1093 broke apart this system so that each institution operates under its own board of trustees. One year earlier, via H.B. 02-1419, Fort Lewis College was spun off from the CSU system.

Staff understand that, at the time, it was anticipated that independent colleges might be stronger and better able to access private donations. However, in the current environment, the problems associated with small scale, independent entities are more apparent. Adams and Western are both in relatively weak financial states, and Fort Lewis has the next weakest CFI of all the state's institutions. As management at Adams noted, *one of the problems these institutions face is simply economies of scale*, *i.e.*, each institution must employ its own chief financial officer and cannot spread the cost to as many students as is feasible at a large institution. Costly information technology systems, marketing campaigns, and many other services can be contracted at a lower per-student cost when the institution is larger.

A larger system may have the financial resources to serve as a financial back-stop for smaller, weaker institutions in its system. For example, small rural community colleges receive a larger share of the total General Fund allocated to state system community colleges than do their larger, urban counterparts. The community college system administration recognizes that smaller rural institutions have higher costs that cannot be covered as effectively by tuition as the costs of large, urban community colleges. It thus subsidizes them. Similarly, staff understands that CSU Fort Collins has been providing support to CSU Pueblo during the recent period of financial difficulties.

The higher education system nationwide is under financial pressure, and there is widespread recognition that *structural changes and innovations may be needed for "second tier" institutions to remain viable. Larger systems are likely to have more resources and capacity to make necessary changes in a challenging financial environment.* In light of this, it is worth exploring whether any of the state's larger institutions are interested in merging with the smaller institutions highlighted in this issue.

	University of Colorado	Colorado State University	University of Northern Colorado	Colorado School of Mines	Fort Lewis College	Adams State University	Colorado Mesa U.	Western State Colorado U.	Metro State U. of Denver	Community College System
Higher Education Institution Ratio Analysis, FY 2011-12 **RATIOS - As defined in KPMG, Prager, Sealy & Co, Bearing Point, "Strategic Financial Analysis for Higher Education, Sixth Edition"**										
Resource Sufficiency: Primary Reserve Ratio (expendable assets/expenses)	**68%**	**45%**	**49%**	**88%**	**57%**	**31%**	**40%**	**28%**	**45%**	**59%**
Numerator: All unrestricted net assets+all expendable restricted net assets, excluding those to be invested in plant+unrestricted and temp restricted assets for foundation	1,891,809	463,197	99,383	181,400	39,304	16,418	38,376	13,833	71,374	331,130
Denominator: all expenses including operating and non-operating plus component unit (C.U.) total expense. Exclude investment losses and funds to be invested in plant	2,782,612	1,022,378	204,474	206,795	68,378	52,339	95,147	48,784	160,203	563,326
Debt Management: Viability Ratio (expendable assets/debt)	**135%**	**71%**	**65%**	**117%**	**69%**	**22%**	**24%**	**14%**	**99%**	**397%**
Numerator: Expendable net assets (same as Primary Reserve Ratio)	1,891,809	463,197	99,383	181,400	39,304	16,418	38,376	13,833	71,374	331,130
Denominator: All amounts borrowed from 3rd parties - notes, bonds, capital leases. Includes both current and long-term	1,399,159	650,270	153,941	155,056	56,598	73,406	158,773	96,517	72,036	83,311
Asset Performance: Return on Net Assets Ratio (change in net assets/total net assets)	**3.9%**	**7.8%**	**0.1%**	**6.8%**	**-1.1%**	**-4.6%**	**5.9%**	**-8.0%**	**13.0%**	**6.2%**
Numerator: Change in GASB total net assets plus change in component unit total net assets regardless of whether restricted/not or expendable or not	141,548	68,615	164	27,705	(1,577)	(3,597)	11,110	(6,942)	10,036	38,774
Denominator: Beginning of the year total net assets	3,603,987	884,343	270,717	405,910	146,266	78,713	188,885	86,791	77,172	629,268
Operating Results: Net Operating Revenues Ratio (Net Income or loss/total revenues)	**3.2%**	**0.4%**	**2.2%**	**4.1%**	**-2.4%**	**-11.6%**	**7.9%**	**-17.5%**	**5.1%**	**5.1%**
Numerator: operating + non-operating net income/loss + component unit change in unrestricted assets	90,638	3,849	4,507	8,973	(1,572)	(5,271)	7,488	(7,039)	8,482	29,314
Denominator: operating +net non-operating revenue plus component unrestricted revenue	2,810,271	1,006,655	202,716	220,743	64,291	45,461	95,224	40,173	165,420	570,972

Requested Increase for the Department of Higher Education

The Governor has requested an overall General Fund increase of 15.5 percent for the Department of Higher Education, comprised primarily of a $60 million increase for the governing boards, local district junior colleges, and area vocational schools, and a $40 million increase for financial aid, including need-based, merit-based, and work study funding.

SUMMARY:

- The Governor has requested an overall General Fund increase of 15.5 percent for the Department of Higher Education. The request for an additional $101.8 million is an important step in restoring the higher education budget, which was particularly affected by recession-driven budget cuts.

- The request includes $60 million for support to institutions (stipends, fee-for-service contracts, and grants) and over $40 million for financial aid increases, including funding for need-based aid, work study, and merit-based aid. Institutions have reportedly agreed to increase tuition no more than 6.0 percent in return for the additional funding.

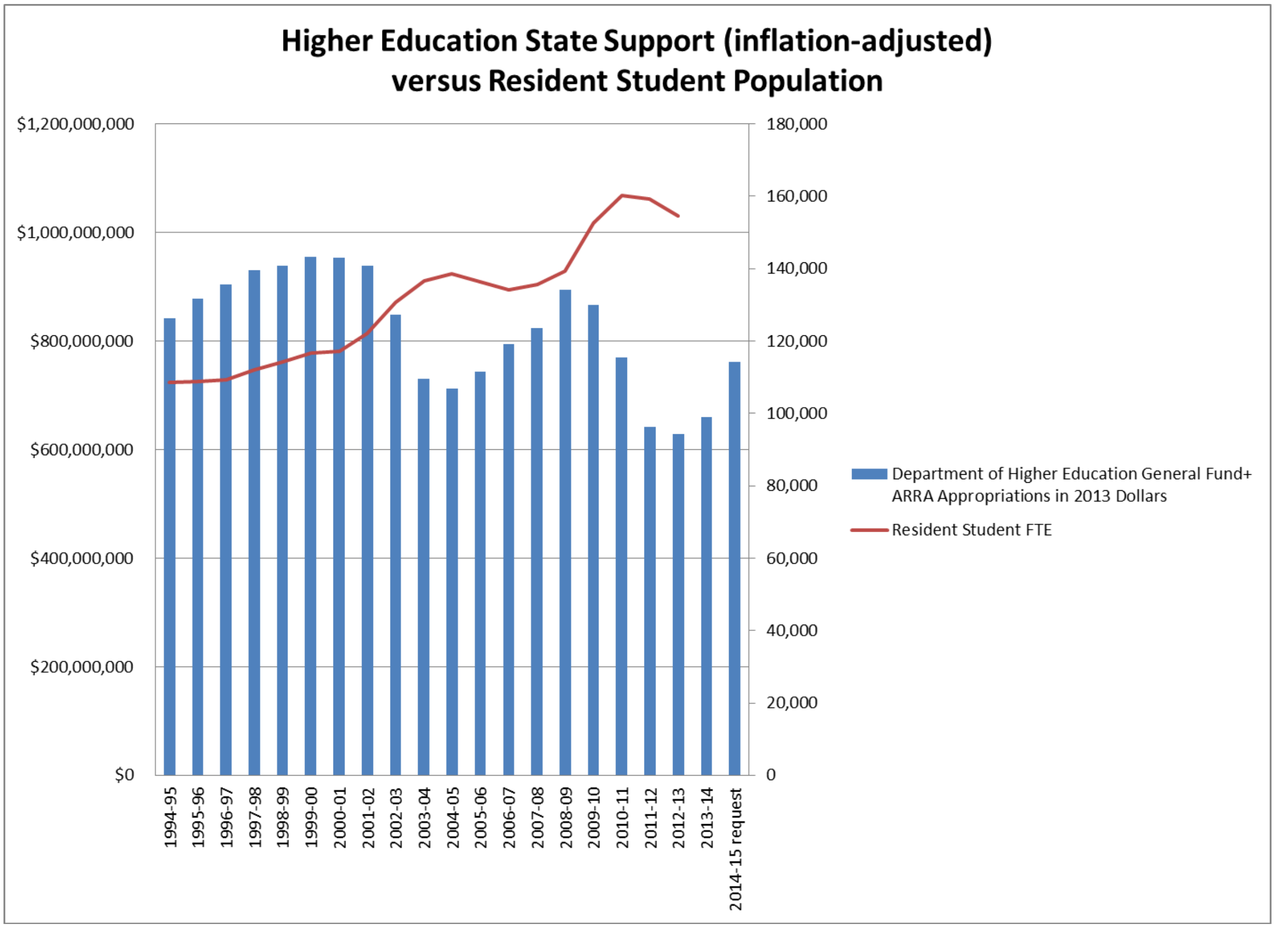
RECOMMENDATION:

The General Assembly should fund higher education increases to the extent revenue is available, but should pursue commensurate increases in institutional accountability. Staff specifically recommends: requiring a formal letter from the institutions regarding limits to tuition increases and maintenance-of-effort in institutional aid for low-income students in FY 2014-15, adopting statutory changes to clarify financial aid statutes, resisting any efforts to extend tuition-flexibility for the institutions past FY 2015-16, and changing triggers to move more rapidly toward performance/outcomes-based funding for higher education.

DISCUSSION:

Background

Over the last 20 years, funding for higher education, adjusted for inflation, has experienced substantial increases and decreases based on the economic cycle, although the long-term trend is declining. The student population, meanwhile, has also experienced substantial increases and decreases, although the long-term trend is increasing. For FY 2014-15, the Governor has requested a 15.5 percent increase in General Fund support, which would restore inflation-adjusted funding to the level in the mid-2000s. Broadly speaking, the request is consistent with historic patterns in which funding for higher education is restored when revenue is available.



The table below shows in more detail how historic funding trends have affected the total state support available per resident student FTE. As reflected, because of the combined impact of student population and funding trends, even a total increase at the level requested by the Governor will not restore inflation-adjusted funding per resident FTE to the level in place ten years ago (FY 2004-05/ the end of the previous recession), although it could be fairly close depending upon the size of the student population.

Fiscal Year	Higher Education General Fund & Federal ARRA Appropriation (2013 Dollars)	Total Resident Student FTE	Total Funding Per Resident Student FTE	Percent Change
1994-95	$840,838,492	108,580	$7,744	n/a
1995-96	877,811,597	108,667	8,078	4.3%
1996-97	904,145,982	109,385	8,266	2.3%
1997-98	930,456,510	112,077	8,302	0.4%
1998-99	938,361,083	114,269	8,212	-1.1%
1999-00	955,355,155	116,739	8,184	-0.3%
2000-01	952,826,076	117,236	8,127	-0.7%
2001-02	937,866,812	122,062	7,684	-5.5%
2002-03	848,034,112	130,789	6,484	-15.6%
2003-04	730,820,685	136,489	5,354	-17.4%
2004-05	711,730,373	138,580	5,136	-4.1%

Fiscal Year	Higher Education General Fund & Federal ARRA Appropriation (2013 Dollars)	Total Resident Student FTE	Total Funding Per Resident Student FTE	Percent Change
2005-06	743,954,083	136,348	5,456	6.2%
2006-07	793,963,458	134,209	5,916	8.4%
2007-08	823,169,373	135,675	6,067	2.6%
2008-09	893,822,198	139,382	6,413	5.7%
2009-10	866,051,785	152,604	5,675	-11.5%
2010-11	768,973,869	160,107	4,803	-15.4%
2011-12	642,057,618	159,229	4,032	-16.0%
2012-13	628,569,790	154,455	4,070	0.9%
2013-14*	659,062,854	*154,455*	4,267	4.9%
2014-15 request*	760,889,619	*154,455*	4,926	15.5%

*FY 2013-14 and FY 2014-15 are not inflation-adjusted and assume flat resident student enrollment.

Request Components

Staff does not believe the scale of the request should be controversial, in light of past funding cuts to this Department. However, the General Assembly has broad discretion in how it chooses to allocate additional funds to higher education. The table below summarizes the key components of the increases requested by the Governor. For most of these items, particularly R1 and R2, comprising over $100 million of the request, the General Assembly could choose to allocate the funds as requested by the Governor or in some different way.

Section and Line Item	Requested Increase	Percent Increase on Base	Allocation Methodology
Financial Aid			
R1 Need Based Grants	$30,000,000	37.8%	To public and some private institutions, based on number of Pell-eligible students at institution; funds increase based on student progression
R1 Work Study	5,000,000	30.4%	To institutions, method TBD by CCHE
R1 Merit Based Grants	5,000,000	n/a	To institutions, method TBD by CCHE
R3 Ft. Lewis Native American Tuition Waiver	836,855	5.8%	All to Ft. Lewis College Native American students (in-state and out-of-state)
R4 Dependent Tuition Assistance	252,000	60.0%	For dependents of deceased/disabled national guard/law enforcement/firefighters, allocated where students attend college
Subtotal - Financial aid	$41,088,855	36.9%	
Public Institutions – College Opportunity Fund Program, Local District Junior Colleges, Area Vocational Schools			
R2 Stipends	$8,331,300	3.1%	
R2 Fee-for-service Contracts	49,380,501	19.2%	

Section and Line Item	Requested Increase	Percent Increase on Base	Allocation Methodology
R2 Grants to LDJCs and AVSs	2,288,199	11.0%	
Subtotal - State institutions	$60,000,000	11.0%	11 percent increase for all governing boards. In return, institutions agree not to increase tuition more than 6 percent.
Other: R2 Private Stipends	$51,510	4.0%	To Pell-eligible students at private institutions, based on where attend
Total Request Items	$101,140,365		

Staff Observations

In general, staff believes the proposal put forward by the Governor represents a reasonable collection of budget adjustments for rebuilding higher education funding. The General Assembly could choose to allocate this funding in a variety of ways: more or less to financial aid, more or less to the governing boards, and different distribution of funds among the governing boards or between different categories of financial aid. There is no clear guidance from a statutory perspective that would help to define an appropriate level of funding.

Some staff observations about the proposal:

- Staff appreciates that additional funding for the institutions is tied to a restriction on tuition growth.
  - While 6.0 percent is still far above inflation and still higher than staff would like, it is better than the alternative that students have experienced in recent years (and the 9.0 percent that would be permitted under current law without CCHE review). This is considered in more detail in a subsequent issue.
  - Keeping tuition costs under control benefits all Colorado resident students. This component of the request will have the most substantive impact on middle-income students for whom the price of college is material but who may not qualify for financial aid assistance.
  - Increases for the governing boards, coupled with the tuition restriction, also help protect against the risk that institutions might *increase* tuition in response to greater availability of financial aid.
  - The proposal will help to limit further erosion of state support as a percentage of total institutional funding, though state support will still remain about 1/3 of total funding for resident undergraduates.

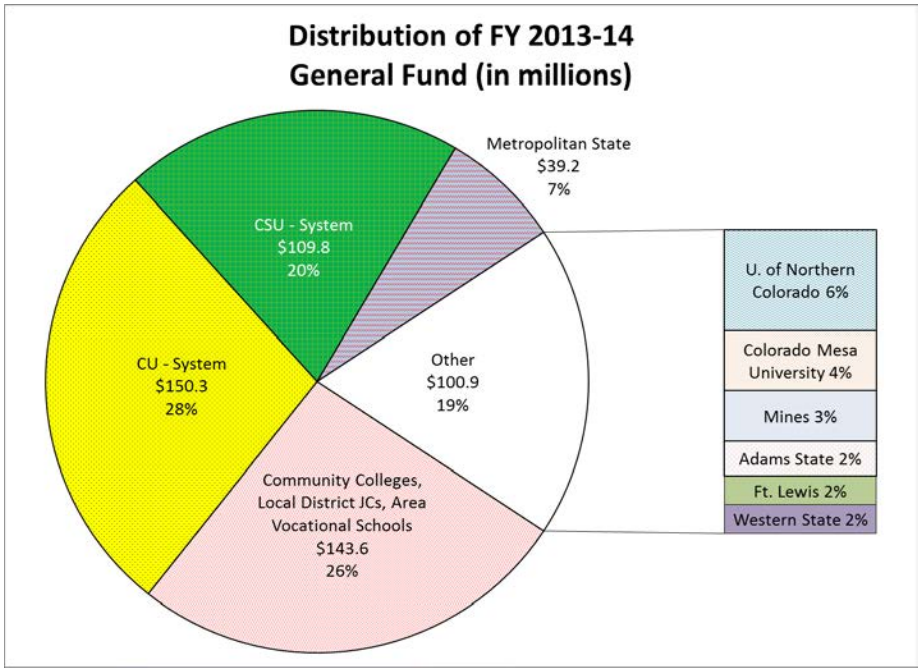
- If the General Assembly wishes to emphasize the tuition buy-down, it might choose to put more of the funds into student stipends. This would be a largely cosmetic change, but might make the State's contribution to buying-down tuition more obvious since student stipend amounts appear on students' bills.

- The Governor's proposal allocates only a small part of the increase for the governing boards to the stipend (increase of $2 from $64 to $66 per credit hour or $1,980 per 30 credit hour FTE).
- Staff estimates that the stipends could likely be increased to $72 per credit hour or $2,160 per 30 credit hour FTE without substantively changing the proposed 11.0 percent total increase proposed for each institution.
- As the funding for the governing boards is currently managed, the additional funding would simply be reclassified: $33.3 million of the new funds for stipends and $24.4 million for fee-for-service contracts.
- The only <u>substantive</u> impact of such a change would be to drive an increase in the COF stipends for students attending private institutions. This change would drive an increase of $162,480 for private COF stipends, instead of the $51,510 requested by the Governor.

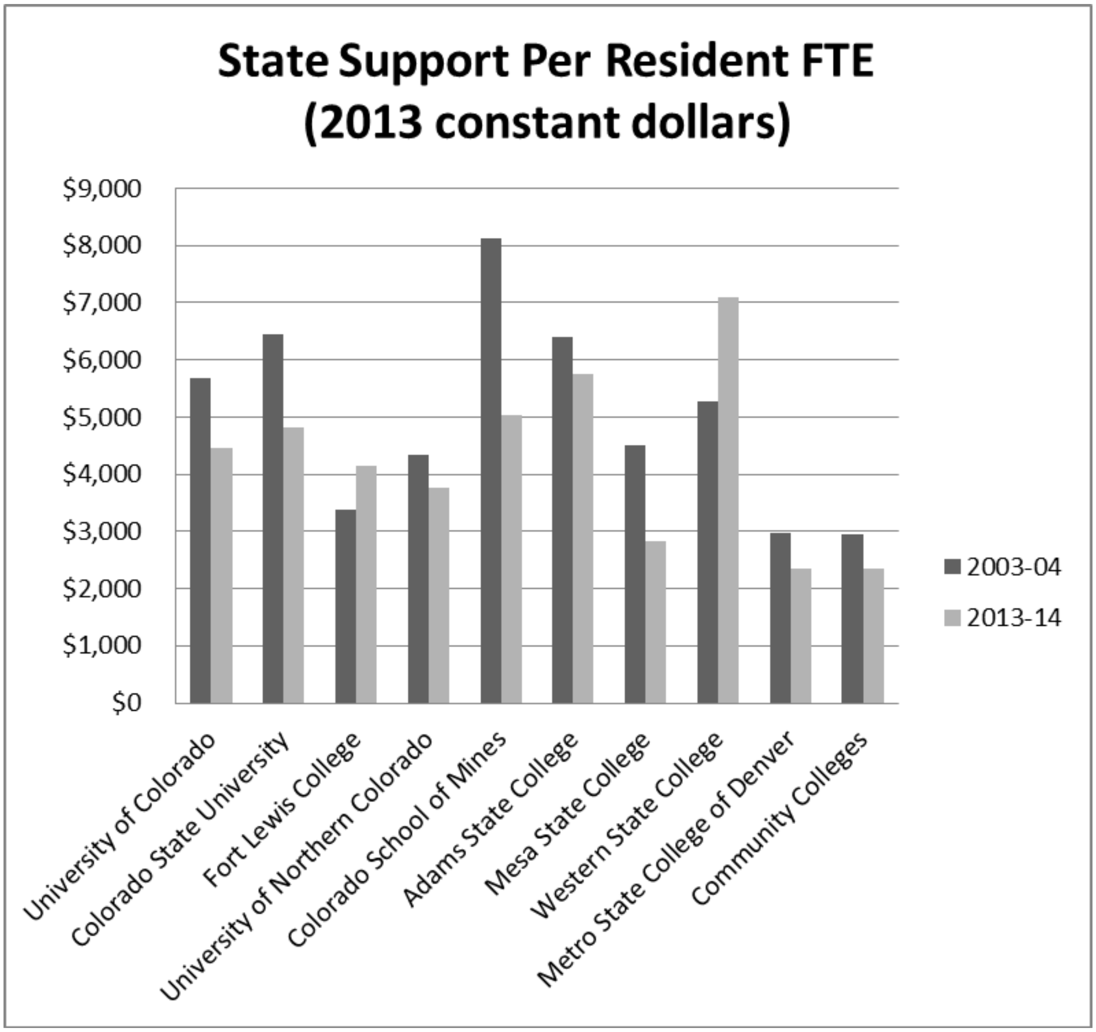
- Staff supports the emphasis on need-based financial aid.
  - Need-based aid makes higher education more accessible to lower-income students and reduces the level of student loan debt low-income students assume. These are both important for ensuring Colorado grows the educated population it needs for the future. A separate issue explores Colorado's current financial aid structure and levels of student debt.
  - The CCHE's method for distributing need-based aid is the only element of state funding that rewards institutions for student progression and retention, as it provides more funding as students' progress through four-years of study.
  - Work study, another request component, has also been shown to be helpful in student retention.

- Staff is aware that members of the General Assembly have been eager to add funding for merit based aid. As explored in the subsequent issue, merit-based aid is the arena in which institutions are most likely to put their internal resources. Staff thus believes the state's resources would be best focused in the need-based arena rather than on merit-based aid.

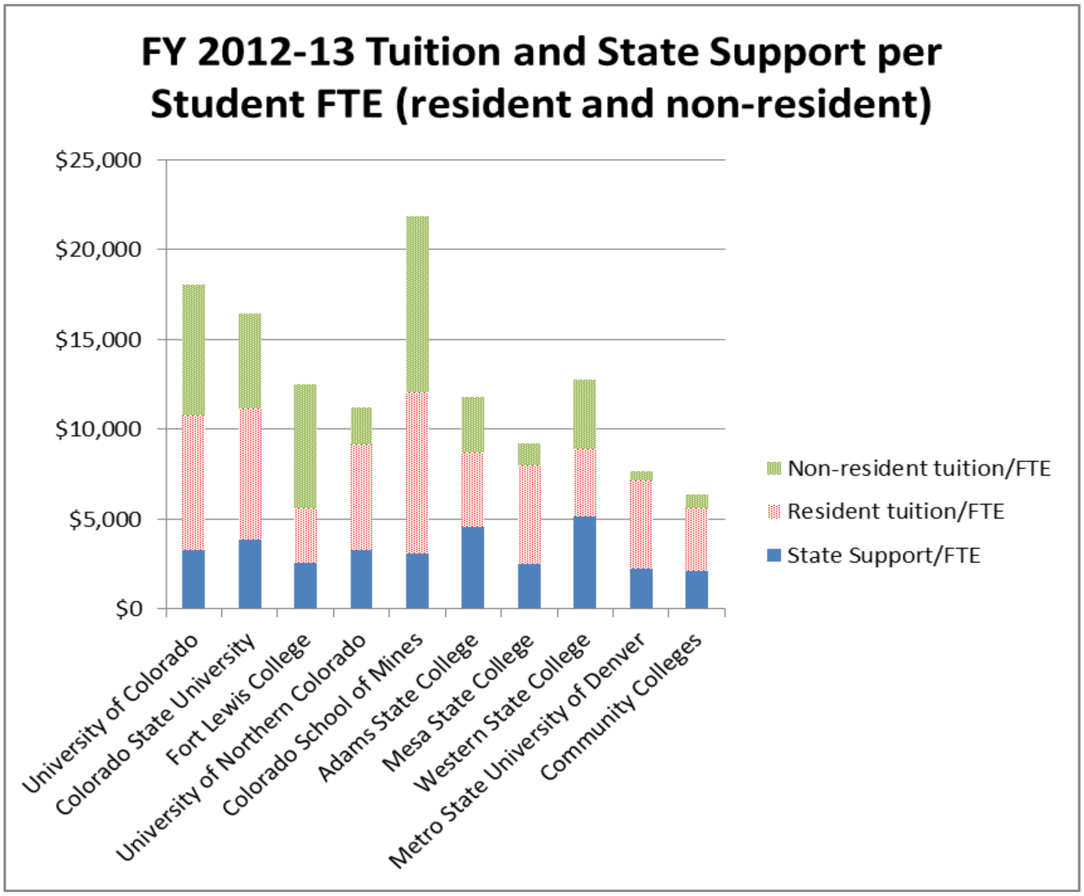
An interesting feature of the request is that it allocates funding to the governing boards proportionately, without any regard to changes in their actual and projected student populations or their relative level of budget cuts from prior years. The chart below reflects graphically the current funding distribution.



To help the General Assembly think about the allocation of funding, staff has constructed some charts that reflect the per-student allocation of resources among the governing boards and funding history by institution. As shown, over the last ten years, the distribution of state support per resident FTE across institutions has shifted dramatically, with support increasing at some institutions and decreasing at others, based on cuts taken over time and enrollment changes, as reflected in the chart below.



As discussed in a subsequent issue, every system has seen a significant increase in per-student funding when General Fund, resident, and non-resident tuition are combined. Thus, those institutions with the largest declines in state appropriations have typically had the greatest ability to expand funding from other sources. The mix of resident tuition, non-resident tuition, and General Fund support per FTE at each institution is shown below for FY 2013-14.



For FY 2014-15, the Governor's proposal, which essentially retains the status-quo with respect to allocations, seems reasonable. At the current point in time, most of the institutions have some basis for arguing that they should receive a larger share of funding restored—whether because they received larger cuts than others during the downturn or because they are the verge of insolvency. While some of these arguments may have more merit than others, there are also benefits to moving forward with a plan to which the institutions have reportedly agreed.

Over the longer term, staff would like to see the General Assembly move toward a funding structure for the institutions that has a more clear analytic basis and that provides incentives consistent with legislative goals. Over the last decade, efforts to develop logical funding schemes—including a structure based on enrollment (the COF stipend)--have been disrupted due largely to revenue downturns. Staff does not believe any approach will provide a silver bullet. However, one option for developing a more logical funding structure--outcomes-based funding--is discussed in a subsequent issue.

Recommendations

Staff would encourage the General Assembly to use this year when funding is again increasing to demand additional accountability. Specifically:

- Current statute regarding the use of financial aid is extremely vague. If the General Assembly wishes to approve an increase of the magnitude proposed, staff recommends changes to tighten it. This is addressed further in a subsequent briefing issue.

- While the Governor has extracted promises from the Governing Boards that in return for the additional funding provided they will not increase tuition more than 6.0 percent, staff believes this commitment should be more clearly pinned down and provided in writing by the institutions to the General Assembly. In particular, the JBC may want to clarify that this restriction would apply to tuition *and* fees and not solely tuition. Staff notes that there is a long history of footnotes that were intended to limit tuition growth but which institutions often found a way to skirt.

- In light of the proposed increase: (1) the General Assembly should resist any effort to extend tuition-flexibility for the institutions past FY 2015-16; and (2) the General Assembly should consider changing the triggers, amounts, and possibly measures used for performance/outcomes-based funding, so that this becomes a meaningful tool for allocating funding to institutions in the future. Both of these issues are considered further in subsequent briefing issues. In general, staff believes the General Assembly should consider changes to the higher education funding structure that would place additional emphasis on outcomes and more clearly specify what the General Assembly is purchasing from the institutions. Such "purchase" could range from a tuition buy-down (as proposed this year) to payments in return for student progression and graduation.

RELEVANCE OF BRIEFING ISSUE TO THE DEPARTMENT'S PERFORMANCE PLAN:

See Appendix E regarding how the Department of Higher Education's request relates to the Department's top priorities and what performance measures the Department is using to measure success of the request. Note that pursuant to the SMART Act, as amended by H.B. 13-1299, (Section 2-7-204 (3) (a) (II), C.R.S.), the Department's master plan, in conjunction with the institutions' performance contracts (required pursuant to S.B. 11-052) satisfy the requirements of the SMART Act.

Issue: Financial Aid

Financial aid plays a significant role in keeping postsecondary education affordable, typically offsetting the total cost of attendance by 30 to 55 percent for the lowest income students. The impact of state financial aid programs has been eroded by increasing tuition and student demand. The Governor has requested a substantial increase for financial aid that should minimally protect the neediest students from cost-increases in FY 2014-15.

SUMMARY:

- The cost-of-attendance has increased substantially at state institutions over the last ten years, due in large part to reductions in state support. Financial aid programs, particularly for needy students, have not kept pace with increased demand, leading to increased reliance on student debt to finance the cost of higher education.

- The Governor proposes an increase of $40.0 million for state financial aid programs, with $30.0 million of the total directed to need-based aid, $5.0 million to work study, and $5.0 million to merit based aid.

- Staff supports the need-based aid and work-study components of the request. Staff anticipates that the requested increase in need-based financial aid should, at a minimum, be sufficient to cover tuition increases at the 6.0 percent level at most institutions, so that needier students are spared cost-increases for FY 2014-15.

- Although merit-based aid is popular with the General Assembly, staff notes that institutional aid is already heavily directed to merit-based aid, which disproportionately benefits wealthier students.

RECOMMENDATION:

Staff recommends redirecting the $5.0 million requested for merit-based to a further need-based aid increase. Further, in light of the large increases requested for financial aid and the governing boards overall, staff recommends the Committee: (1) sponsor legislation to modernize and clarify financial aid statutes; and (2) ask institutions to agree to maintain or increase institutional aid for low-income (or low- to middle-income) students in FY 2014-15.

DISCUSSION:

Background

Cost of Attending College. The table below compares the total cost of attendance at state institutions in FY 2002-03 versus FY 2012-13. The costs shown include tuition and fees but also living and other costs: housing, food, and books. As shown, cost increases for community colleges over this time frame were relatively restrained, but costs for students living on-campus at the University of Colorado at Boulder, Colorado State University at Fort Collins, and the

Colorado School of Mines increased by 95 percent, 89 percent, and 101 percent respectively. Inflation over the same period, as measured by the Denver-Boulder-Greeley consumer price index, increased 24 percent.

- For lower and middle income students facing these total attendance costs, financial aid plays a crucial role in students' ability to attend and succeed in post-secondary studies. Various studies have shown that cost is an obstacle to higher education participation and persistence among youth from low-income families, who are far less likely to attend and persist in postsecondary education.[6]

- Both low and middle-income students must often take on substantial debt to complete their degrees. National student loan debt has topped $1 trillion, prompting widespread discussion of the potential impact of this on young adults and the economy as a whole.[7] In FY 2012-13, between 57.0 percent (CU Boulder) and 84.2 percent (Adams State) of students graduating with a baccalaureate had student debt, with average debt ranging from $21,667 (Fort Lewis) to $29,167 (UCD). Debt is also very high for students at the community colleges. Of students graduating from these institutions with associates degrees, between 51.0 percent (Lamar) and 72.4 percent (CCD) carry debt ranging from $9,461 (Otero) to $19,865 (Northwestern).[8] Furthermore, for some public institutions such as Lamar, Otero, and Pueblo Community College, three-year average default rates on federal student loans have crept above 30 percent of the student population, threatening accreditation.[9]

- Increasingly, high sticker prices have also become an issue for upper-income families, leading both private and public institutions to use merit based financial aid as a recruiting tool to attract desirable students, regardless of the family's income level.

Financial aid programs – federal, state, and institutional -- address each of these problems to varying degrees. As a result, *the net total cost of attendance, after grants, is 60 to 80 percent of these figures on average with some students paying the sticker price and others facing a lower out-of-pocket cost.*

[6] Baum, McPherson, Steele, eds, *The Effectiveness of Student Aid Policies: What the Research Tells Us*, The College Board, 2008 http://professionals.collegeboard.com/profdownload/rethinking-stu-aid-effectiveness-of-stu-aid-policies.pdf
[7] See, for example, *Consumer Financial Protection Bureau, Student Loan Affordability: Analysis of Public Input on Impact and Solutions*, May 8, 2013. http://www.consumerfinance.gov/reports/student-loan-affordability/
[8] Colorado Department of Higher Education, Financial Aid Report 2012-13 (pre-release draft). Scheduled for release December 4, 2013.
[9] See federal website: http://www.nslds.ed.gov/nslds_SA/defaultmanagement/search_cohort_3yr2010.cfm

	FY 2002-03		FY 2012-13		Percent Change	
Institution Name	Total price for in-state students living on campus	Total price for in-state students living off campus (not with family)	Total price for in-state students living on campus	Total price for in-state students living off campus (not with family)	Total price for in-state students living on campus	Total price for in-state students living off campus
Four-year Institutions						
Adams State University	$11,441	$11,441	$18,410	$19,309	61%	69%
Colorado Mesa University	13,546	13,787	19,732	19,732	46%	43%
Colorado School of Mines	14,706	14,706	29,501	28,620	101%	95%
Colorado State University-Fort Collins	11,773	12,155	22,285	20,908	89%	72%
Colorado State University-Pueblo	12,375	14,627	20,575	20,875	66%	43%
Fort Lewis College	12,486	13,938	20,136	20,406	61%	46%
Metropolitan State University of Denver		14,105		18,296		30%
University of Colorado Boulder	14,274	15,877	27,854	25,024	95%	58%
University of Colorado Colorado Springs	13,293	14,896	19,588	20,388	47%	37%
University of Colorado Denver		15,372	24,665	23,317		52%
University of Northern Colorado	12,182	12,182	19,664	20,262	61%	66%
Western State Colorado University	10,942	13,137	19,527	19,360	78%	47%
Community Colleges						
Arapahoe Community College	2,510	13,683		18,174		33%
Colorado Northwestern Community College	10,569	10,899	15,644	18,238	48%	67%
Community College of Aurora	15,492	17,252		17,983		4%
Community College of Denver	2,949	14,123		18,238		29%
Morgan Community College	3,011	14,184		18,238		29%
Northeastern Junior College	11,028	14,369	16,014	18,554	45%	29%
Otero Junior College	10,415	12,855	15,740	18,934	51%	47%
Pikes Peak Community College	2,778	12,943		18,265		41%
Pueblo Community College	2,878	14,051		17,215		23%
Red Rocks Community College	2,860	14,033		18,238		30%
Trinidad State Junior College	10,338	13,999	16,164	19,216	56%	37%
Aims Community College	2,712	13,120		18,038		37%
Front Range Community College	2,946	15,319		18,238		19%
Lamar Community College	9,375	13,605	15,186	18,238	62%	34%

Source: National Center for Education Statistics, IPEDS Data Center

Types and Availability of Financial Aid

The tables below shows the sources of aid reported to the Department of Higher Education for FY 2012-13 and prior years. Note these tables include funding for graduate students and students attending private institutions.

	FY 2012-13 Amount	Percentage of Total
Institutional	$489,887,451	22%
Federal	409,141,138	18%
State	106,699,533	5%
Loans	1,187,161,265	52%
Other	82,354,401	4%
Total	$2,275,243,788	100%

Source: Colorado Department of Higher Education, Financial Aid Report FY 2012-13 (pre-release draft)

Total Expenditures on Student Financial Aid in Colorado, 2007-2013

Fiscal Year	Federal Pell Grant	Federal Loans	Federal Other	State	Institutional	Other	Total
2008	156,053,690	988,364,934	55,931,859	96,973,437	288,198,524	53,715,525	1,639,237,969
2009	196,053,007	972,425,090	57,240,828	108,500,982	327,883,102	62,174,048	1,724,277,057
2010	314,194,931	1,144,184,721	50,394,860	105,927,577	374,424,939	68,393,532	2,057,520,560
2011	390,931,104	1,229,467,727	55,303,980	106,788,995	403,777,897	72,264,757	2,258,534,460
2012	381,468,453	1,255,762,761	40,238,156	106,311,324	456,985,165	76,696,173	2,317,462,032
2013	361,500,944	1,187,161,265	47,640,194	106,699,533	489,887,451	82,354,401	2,275,243,788
2008-2013	131.65%	20.11%	-14.82%	10.03%	69.98%	53.32%	38.80%

Source: Colorado Department of Higher Education, *Financial Aid Report FY 2012-13* (pre-release draft)

- These funds are directed into two primary types of aid: need-based and merit-based.
- The bulk of federal and state funds are directed to need-based aid, including grants and federally-subsidized loans;
- The majority of institutional funds, at least at state institutions, are directed to merit-based aid, including aid for non-resident students.

Need –based Aid

Federal Pell Grants and subsidized loans: Eligibility for *federal* need-based aid, including federal Pell grants and federal subsidized loans, is driven by federal guidelines that dictate how expected family contribution is calculated.

> [Institution cost of attendance] – [Expected family contribution] = [Student Need]
> (and thus eligibility for need-based aid)

Typically, a student can expect to receive a full federal Pell grant of $5,550 per year with a household income of $30,000 or less, while a student might receive a partial Pell grant with a household income approaching $40,000, though specific eligibility calculations take into account a variety of factors including assets and number of family members.

Changes were made to federal law in 2008 that broadened Pell eligibility, but eligibility has again been restricted, contributing to an overall reduction in federal Pell support for Colorado students in FY 2012-13. Year-round Pell was eliminated for FY 2011-12. Further, federal authorities reduced the lifetime limit for Pell eligibility to 12 academic semesters or 600 percent of a full Pell grant over 18 semesters. The Department reports that because the change was retroactive, some students exhausted eligibility in FY 2012-13.[10]

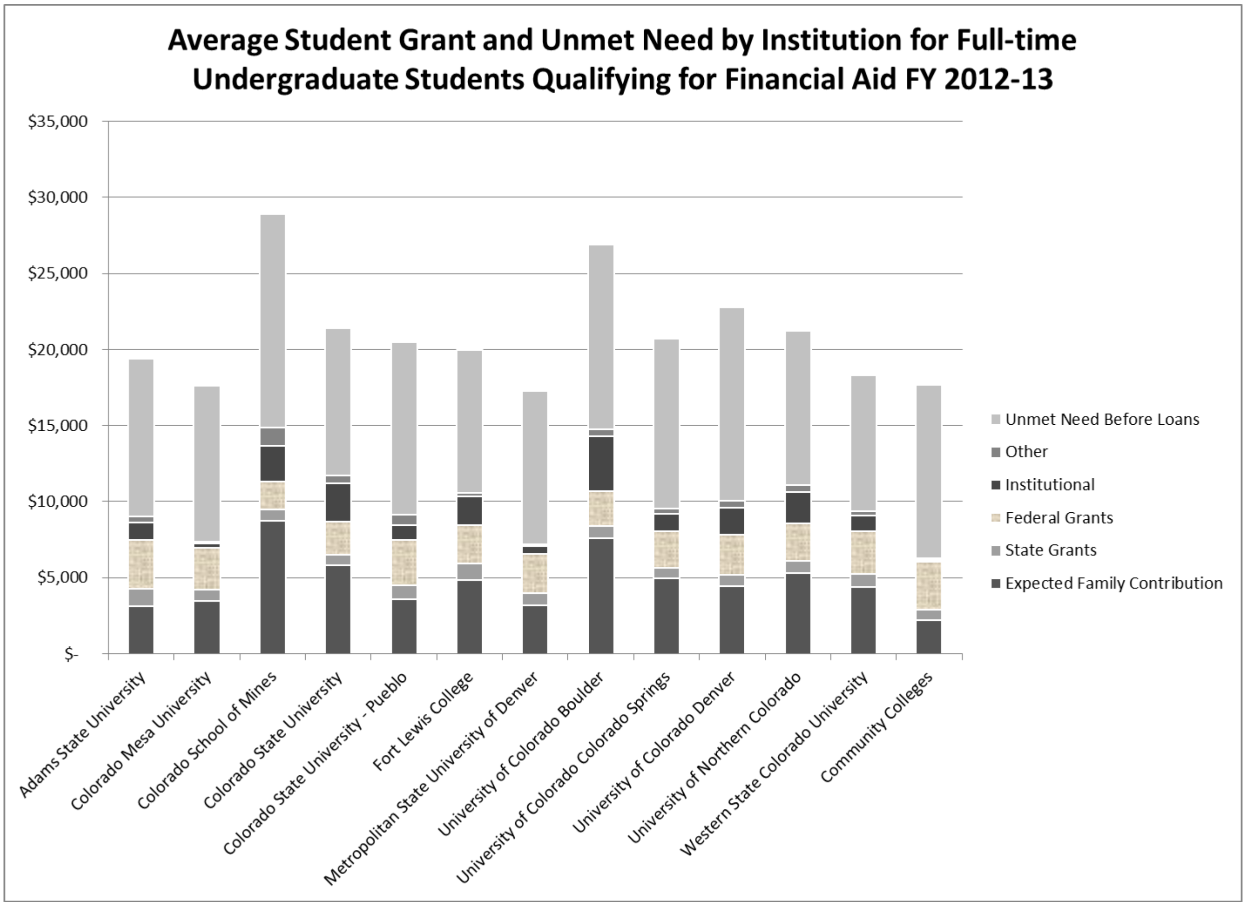
[10] Colorado Department of Higher Education, *Financial Aid Report FY 2012-13* (pre-release draft).

State Need Based Grants: The Colorado Commission on Higher Education distributes state grants among institutions. Institutions have broad authority to allocate state aid among students as they deem appropriate. However, in practice, state Need Based Grants, like federal grants, are typically based on the federal calculation and provided to students based on the difference between an institution's cost of attendance and student need.

State Work Study: Per statute, 2/3rds of work study funding must be distributed to students who qualify based on need, but the rest is not similarly restricted. Work study thus falls into an intermediate category between need-based grants and "other" and is presently distributed among institutions based on historic patterns that reflect the jobs institutions have available for students

Institutional and Other: Institutional aid is funding that the institution grants, often in the form of tuition-offsets. According to the Department's draft *Financial Aid Report*, of the institutional aid at public institutions, about 39 percent is awarded to resident undergraduates who have applied for financial aid and are enrolled. The balance is distributed to non-resident students and for merit-based aid.

The chart below summarizes the financial aid available to students who qualify for need-based aid by institution in FY 2012-13. The difference between grant funding and need is filled to a significant extent by student loans, including both federally-subsidized and non-subsidized loans.



Source: Department of Higher Education data provided 11/20/13

<u>Merit Based Aid/Other:</u>
Unlike for need-based aid, there is no standard, statewide basis for determining which students should be eligible for merit-based aid, and institutions make individual decisions regarding which students they believe should receive tuition discounts. Indeed, there is no statewide definition or mechanism for establishing statewide policy for who qualifies for merit based aid.[11]

Colorado's larger institutions offer standard merit-based tuition reductions for resident students, and all institutions administer some merit-based awards.

[11] The only related statutory reference is the "Colorado Scholars" program, adopted in H.B. 13-1320, which allows institutions to increase the proportion of their student body that is non-resident if they identify certain students as "Colorado scholars" and award them at least $2,500 in financial aid. As specified in Section 23-1-113.5 (5) (a), to qualify as a Colorado Scholar, a student must graduate in the top ten percent of the student's high school class, must have at least a 3.75 GPA, having completed a highly rigorous college preparatory curriculum, and meets and additional criteria established by the institution.

- CU Boulder offers an "Esteemed Scholars" program that provides merit aid of $2,500 to $5,000 per year based on student GPA and standardized test scores, in addition to various other programs.
- CSU Fort Collins similarly offers a tuition reduction of $1,000 to $4,000 per year based on student GPA and standardized test scores. Both institutions also offer merit scholarships (tuition reductions) for non-resident students and a substantial portion of institutional aid is directed to non-resident students, as reflected in the chart below.

Although institutions do contribute institutional funds to need based aid, the majority of institutional aid at public institutions is used for merit-based aid, including for non-resident students.

State Financial Aid Funding

- State financial aid statute is found at Article 2.2 of Title 23, Colorado Revised Statutes and specific policies are covered further below. Statute provides that:
- State funding for need-based grants is distributed to institutions by the Colorado Commission on Higher Education (CCHE) based on CCHE guidelines.
- Institutions administer financial assistance according to policies and procedures established by the governing boards.
- Special programs targeted at dependents of disabled and diseased guardsmen, firefighters, and law enforcement officers receive first priority, with moneys remaining available for work-study and scholarship and grant program funding based upon "financial need, merit, talent, or other criteria".

The Great Recession placed significant additional financial demands on students and institutions. The combination of reduced General Fund support and a large influx of new students drove institutions to increase tuition, while state, institutional, and other non-federal financial aid sources had to be stretched to accommodate far more students. Although State General Fund support for financial aid was relatively flat from FY 2008-09 through FY 2011-12, it was used to serve far more students. The net result was less funding per student, as reflected in the charts below, which come from an early-release version of the Department's annual financial aid report. As shown, due to these trends, between FY 2008-09 and FY 2012-13, state funding fell by 18.9 percent on a per-student basis for need-based aid and was entirely eliminated for merit based aid.

State Funded Financial Aid Programs, 2003-2013

Fiscal Year	Need-Based Grants	Merit-Based Grants	Work-Based Aid	Categorical Programs	Total State Aid
2002-2003	$51,550,101	$14,874,498	$16,612,357	$8,049,044	$91,086,000
2003-2004	$46,002,682	$6,877,309	$15,030,062	$8,296,701	$76,206,754
2004-2005	$45,935,202	$6,434,287	$15,003,374	$8,790,113	$76,162,976
2005-2006	$52,285,488	$1,500,000	$15,003,374	$10,005,122	$78,793,984
2006-2007	$60,096,963	$1,500,000	$14,884,300	$11,281,496	$87,762,759
2007-2008	$67,023,546	$1,500,000	$14,884,300	$11,766,432	$95,174,278
2008-2009	$74,294,146	$1,500,000	$16,612,357	$12,862,293	$105,268,796
2009-2010	$74,294,146	$0	$16,612,357	$13,025,841	$103,932,344
2010-2011	$74,144,146	$0	$16,612,357	$13,192,092	$103,948,595
2011-2012	$74,607,417	$0	$16,612,357	$13,111,524	$104,331,298
2012-2013	$75,205,286	$0	$16,432,328	$13,938,479	$105,576,093
Change 2008-2013	12.21%	-100.00%	10.40%	18.46%	10.93%
Change 2003-2013	45.89%	-100.00%	-1.08%	73.17%	15.91%

Number of Students Receiving State Financial Aid				
	State Need-based	State Merit	State Work Study	State Categorical
2007-08	47,985	1,158	7,433	951
2008-09	51,768	1,127	8,360	934
2009-10	62,259	-	8,162	933
2010-11	71,676	-	8,123	1,082
2011-12	70,243	-	7,535	1,137
2012-13	66,055	-	7,699	1,250
Change FY 08 to FY 13	37.7%	-100.0%	3.6%	31.4%

Average Award Per Student Receiving State Financial Aid				
	State Need-based	State Merit	State Work Study	State Categorical
2007-08	$1,393	$1,294	$2,170	$9,749
2008-09	1,354	1,325	2,160	11,294
2009-10	1,153	-	2,189	12,082
2010-11	1,020	-	2,185	11,568
2011-12	1,056	-	2,348	12,600
2012-13	1,130	-	2,284	11,606
Change FY 08 to FY 13	-18.9%	-100.0%	5.3%	19.0%

Source (3 tables): Colorado Department of Higher Education, *Financial Aid Report FY 2012-13* (pre-release draft)

Executive Request and Staff Observations

The Executive Request for FY 2014-15 includes the following increases for aid:

	Base Funding	R1	Percent Change
Need Based Grants	79,346,789	$30,000,000	37.8%
Work Study	16,432,328	5,000,000	30.4%
Merit Based Grants	0	5,000,000	n/a

<u>Impact of proposed increase in state need-based grants</u>
The precise impact of increases on students is uncertain, and depends on how moneys are ultimately allocated among students by the institutions. However, *staff's initial estimates suggest that the amount of funds available per needy student will in some cases exceed but in other cases fall short of potential tuition and fee increases by institutions, assuming the number of eligible students also continues to decline and all institutions increase tuition and fees by 6.0 percent.*

	State grants available	Students	State grant per student
FY 2010-11	$74,114,146	71,676	$1,034
FY 2011-12	74,607,417	70,243	1,062
FY 2012-13	74,941,339	66,055	1,135
FY 2013-14*	79,346,789	64,734	1,226
FY 2014-15*	109,346,789	63,439	1,724
Rough estimate grant change per student FY 14 to FY 15			$498

*Number of students reflects a rough staff estimate that students served will decline by 2.0 percent per year in FY 2013-14 and FY 2014-15, following declines of 2.0 percent in FY 2011-12 and 6.0 percent in FY 2012-13.

Assuming that all institutions increase tuition <u>and fees</u> by a total of 6.0 percent in FY 2013-14, this would lead to increases by institution for undergraduate "base" tuition and fees by:

- An average of $237 at the community colleges;
- $345 at Metropolitan State University at Denver;
- $432 at Colorado Mesa (and a similar figure at Adams, UNC, CSU-Pueblo, Ft. Lewis, and Western State)
- $559 at CSU – Fort Collins; and
- $621 at CU – Boulder

Thus, at the more expensive institutions, even with additional Need Based Grants, low-income students might still see an increase in out-of-pocket expenses if the institutions increase tuition and fees by 6.0 percent and do not direct additional institutional aid to the students. These institutions may well do so—CSU Fort Collins, for example, promises to ensure that 100 percent of student tuition and fees are covered for Pell-eligible students. CU Boulder makes a similar commitment but only for Pell-eligible students with family incomes below the federal poverty-line. However, individual institutions' willingness and ability to provide such guarantees varies. Only a few institutions will be bound by "Financial Accountability Plans" submitted in prior years associated with large tuition increases.

Allocation among institutions

In FY 2013-14, undergraduate need-based aid was distributed among higher education institutions as follows:

CCHE policy adopted in FY 2013-14 allocates Need Based Grant funding among institutions based on:

- The number of Pell-eligible FTE at each institution
- Greater per-student amounts as students' progress from the first through the fourth year of study (expected to now be reduced for 5th-year seniors)
- Institutional flexibility regarding allocation of the funds to students, *e.g.,* an institution could choose to provide some of its funding to students at 150 percent of Pell-eligibility.

Although policy for FY 2014-15 has not been finalized, it is anticipated that CCHE will continue to apply this approach in FY 2014-15. Further, if the General Assembly approves increases for work-study and merit-based aid, CCHE will need to develop policies on how to distribute the funds. Work-Based aid is currently based on the historic location of student jobs, as there have not been major recent-year increases. Merit based grants were discontinued in FY 2008-09, so none are currently distributed.

The FY 2013-14 financial aid allocations have been attached in an appendix. The allocation is quite different from the allocation to the Governing Boards:

- 34.8 percent of the financial aid total in FY 2013-14 was allocated to community colleges, area vocational schools, and local district junior colleges, compared to 26.5 percent of the funds allocated to governing boards via the College Opportunity Fund Program (COF).
- Similarly, Metropolitan State College of Denver received 14.1 percent of the total, compared with 7.2 percent of General Fund allocations to the institutions via COF and grants.

These differences reflect where low income students attend college.

	FY 2012-13 Pell Recipient FTE	Pell Recipients as Percentage Total Resident FTE
Adams State University	1,061	56%
Colorado School of Mines	628	14%
Colorado State University	5,275	26%
Colorado State University - Pueblo	2,108	53%
Fort Lewis College	780	22%
Colorado Mesa University	3,550	47%
Metropolitan State University of Denver	8,707	51%
University of Colorado Boulder	3,880	17%
University of Colorado Colorado Springs	2,709	37%
University of Colorado Denver	3,443	39%
University of Northern Colorado	3,249	36%
Western State Colorado University	558	31%
Community College System	2,439	54%
Grand Total	70,970	40%

Source: Colorado Department of Higher Education data

Note also that 7.2 percent of the total is allocated to non-profit and for-profit private institutions, and 5.3 percent of the total is for graduate education at public institutions. Staff is not certain to what extent any new financial aid funding would also be directed to these groups.

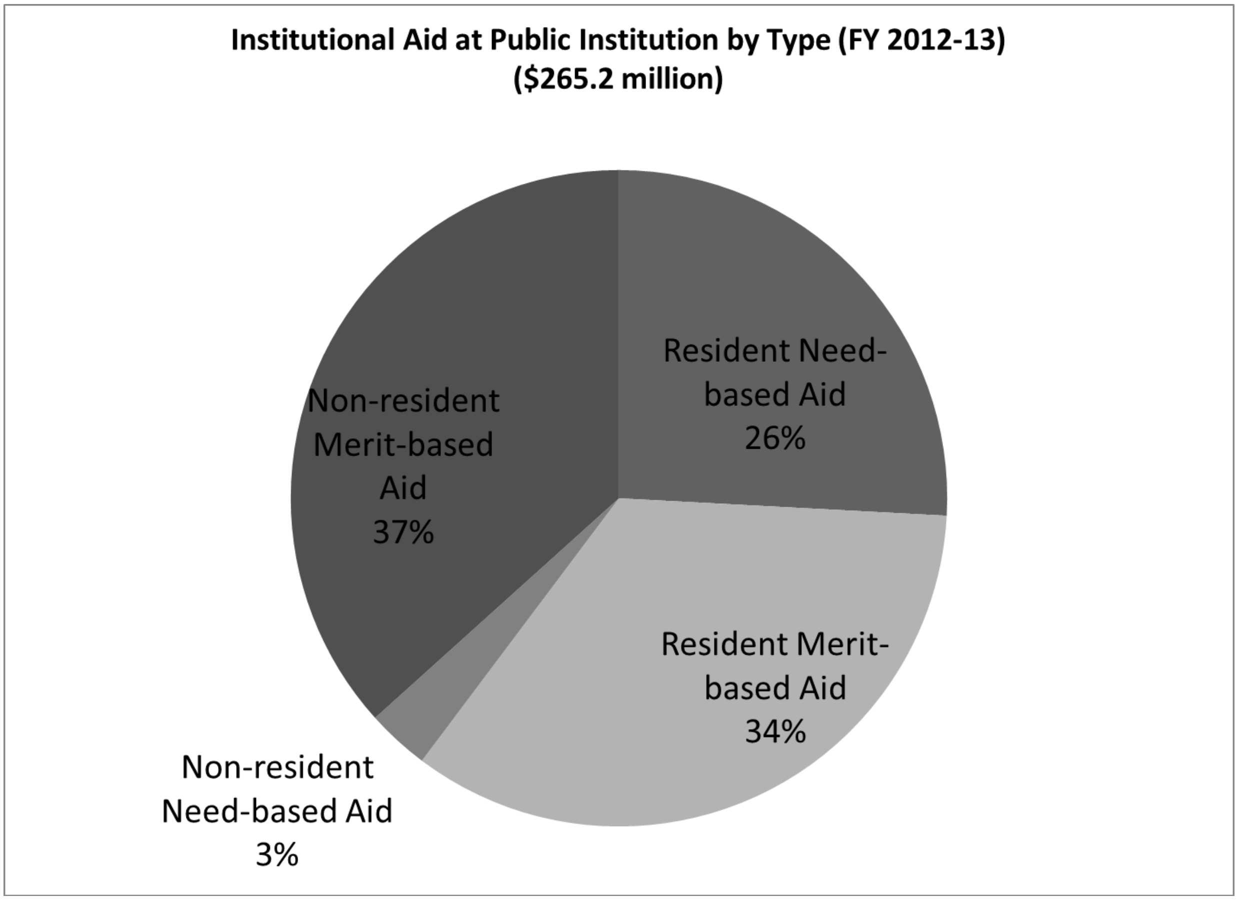
Staff Recommendations – Merit-based Aid and Statutory Changes

***Merit-based Aid*:** Staff recognizes that merit based aid is popular among legislators and that legislators are understandably interested in showing their commitment to keeping Colorado's best and brightest in-state. *Staff nonetheless believes that additional state aid might be better focused on needy students, because institutions themselves are typically eager to attract high performing students and will offer financial incentives without state assistance*.

Researchers have pointed out that institutions have increasingly directed institutional aid to merit-based aid, which disproportionately benefits high income students. This reflects a competitive environment among institutions in which institutions actively recruit students by offering them tuition discounts. Nationally, the share of high income students receiving grants has grown, while the share of low-income students receiving grants has declined.[12]

In Colorado, as elsewhere, increases in tuition have been accompanied by increases in financial aid. However, as reflected in the pie chart below, the vast majority of that aid is not being directed based on student financial need.

[12] Burd, *Undermining Pell: How Colleges Compete for Wealthy Students and Leave the Low-Income Behind*, New America Foundation, May 2013
http://education.newamerica.net/sites/newamerica.net/files/policydocs/Merit_Aid%20Final.pdf



Source: Colorado Department of Higher Education data

The chart below compares, for Colorado institutions, the extent to which need-based aid covers the cost of attendance for students at the lowest-end of the need-based scale: Students receiving with an annual household income of $0-$30,000. As shown, even after financial aid, the very neediest Colorado resident students must still cover 45 percent or more of their total cost of attendance at most public higher education institutions.

Institution Name	Average net price (income $0-30 000)- students receiving Title IV Federal financial aid 2011-12	Total cost of attendance for in-state students 2011-12*	Average net price for ($0-30,000) as a percentage of total cost
Adams State University	$9,163	$17,237	53%
Colorado Mesa University	13,895	20,471	68%
Colorado School of Mines	19,089	26,748	71%
Colorado State University-Fort Collins	9,147	20,482	45%
Colorado State University-Pueblo	10,035	19,446	52%
Fort Lewis College	9,777	18,966	52%
Metropolitan State University of Denver*	8,240	17,532	47%
University of Colorado Boulder	13,934	27,236	51%
University of Colorado Colorado Springs	11,008	22,598	49%
University of Colorado Denver	12,936	21,774	59%
University of Northern Colorado	13,601	19,663	69%
Western State Colorado University	9,182	17,937	51%
Community College Average*	10,595	17,790	60%

*Cost of attendance is based on full-time on-campus undergraduate cost, except for starred entities for which costs reflect off-campus, living independently.
Source: National Center for Education Statistics, IPEDS Data Center

Notably, while community colleges and many four-year institutions have managed to limit cost increases for their lowest income students, Colorado's largest and wealthiest institutions—the University of Colorado at Boulder and Colorado State University at Fort Collins—reflect the some of the largest increases for their low-income students. *In FY 2008-09, students with incomes in the $0-$30,000 range paid 44 percent of the standard cost of attendance at CU-Boulder and just 28 percent at CSU-Fort Collins. By FY 2011-12, these students were responsible for 51 percent and 45 percent of costs, respectively.*

Institution Name	Average net price (income $0-30 000)- students receiving Title IV Federal financial aid FY 2008-09	Average net price (income $0-30 000)- students receiving Title IV Federal financial aid FY 2011-12	Percent change FY 2008-09 to FY 2011-12
Adams State University	$7,507	$9,163	22%
Colorado Mesa University	14,504	13,895	-4%
Colorado School of Mines	16,224	19,089	18%
Colorado State University-Fort Collins	4,870	9,147	88%
Colorado State University-Pueblo	12,984	10,035	-23%
Fort Lewis College	9,912	9,777	-1%
Metropolitan State University of Denver*	6,551	8,240	26%
University of Colorado Boulder	10,119	13,934	38%
University of Colorado Colorado Springs	7,037	11,008	56%
University of Colorado Denver	15,027	12,936	-14%
University of Northern Colorado	13,232	13,601	3%
Western State Colorado University	9,520	9,182	-4%
Community College Average*	8,795	10,595	20%

Source: National Center for Education Statistics, IPEDS Data Center

Staff Recommendation – Modernize and Clarify Financial Aid Statutes

In light of the large increases requested for financial aid, staff recommends that the Committee consider legislation to modernize and clarify financial aid statutes. Financial aid statutes are found in Section 23-3.3-101 through 901, C.R.S. Portions of these statutes have not been modified since 1979 and appear outdated, while other portions were substantially modified by S.B. 10-003. In general, the original statutes gave CCHE substantial authority. As that authority has been pulled back to the General Assembly and the institutions over time, the statutes do not appear to have been consistently modified.

<u>Issue #1 – Who defines what constitutes "Need Based Grants" or "Merit Based Grants"?</u>

Prior to the passage of S.B. 10-003, the Colorado Commission on Higher Education was responsible for administering the financial assistance program with the assistance of institutions "according to policies and procedures established by the Commission". Senate Bill 10-003 replaced this with the following language:

> **Section 23-3.3-102. Assistance program authorized – procedure – audits.** (1) The general assembly hereby authorizes the commission to establish a program of financial assistance, to be operated during any school sessions, including summer sessions for students attending institutions.
> (2) The commission shall determine, by guideline, the institutions eligible for participation in the program and shall annually determine the amount allocated to each institution.
> (3) Each state institution shall administer a financial assistance program according to policies and procedures established by the governing board of the institution.

The bill made no changes to the much older section of statute that effectively authorizes need-based and merit-based aid.

> **23-3.3-501. Scholarship and grant program- funding.** The commission shall use a portion of any moneys remaining after meeting the requirements of parts 2 and 3 of this article [related to the Dependent Tuition Assistance Program and Work Study] to provide other programs of financial assistance based upon financial need, merit, talent, or other criteria established by the commission for students enrolled at institutions.

Staff finds the resulting statutes confusing with respect to who has authority to define "Need Based Grants" or "Merit Based Grants". Neither term is currently defined in statute (definitions for the financial aid article are found at Section 23-3.3-101, C.R.S.).

- Does the Commission have authority to define what is meant by "Need Based Grants" or "Merit Based Grants" if the General Assembly chooses to appropriate into those line items?
- Does it have authority to make any other demand of institutions, such as requiring that state financial aid be directed only to students eligible for in-state funding (residents and ASSET-eligible students)?

Based on conversations with the Department and OLLS, there appears to be consensus that the changes included in S.B. 10-003 were intended to strip CCHE of such authority.

- Yet, if the answers to the above questions are "no", who does have authority to define these terms? May the institutions use any financial aid funds they receive in any manner they choose without regard to the line item titles reflected in the Long Bill? Could they direct the funds to students who are not residents? Establish eligibility for "Need Based Grants" based on anyone with a household income below $100,000? Provide "Merit Based Grants" to a person with a GPA of 1.0?
- If the institutions have flexibility to use the funds but some basic restrictions apply, e.g., if "Need Based Grants" appropriations may only be used by the institutions for people with an expected family contribution that is lower than the institution's cost of attendance, shouldn't statute say this?

In light of this confusion, staff recommends the JBC consider sponsoring legislation to accomplish one or more of the following options:

Option 1: Add statutory language requiring that funds be spent by the institutions consistent with the purposes specified by Long Bill line item titles, footnotes and the definitions in the article. Then, add definitions to the statute for "Need-based Grants", "Work Study" and "Merit Based Grants". Such definitions could be extremely broad, leaving institutions with substantial flexibility.

Option 2: Add language to clarify the Commission's authority to establish broad parameters for institutions' use of appropriated financial aid. This might include, for example, clarifying Section 23-3.3-102 (1), C.R.S., to specify that the Commission may establish, in consultation with the institutions, general guidelines within which institutionally-administered programs must operate.

Option 3: *[Could be combined with Options 1 or 2]* Provide the Commission authority to review/approve financial assistance program policies and procedures established by the governing boards. Staff recognizes that this might be controversial, but it would restore a mechanism by which CCHE could "smell test" institutional policies to ensure they are consistent with legislative intent as expressed in Long Bill line item titles and footnotes.

<u>Issue #2 – Archaic language/authority of CCHE to transfer funds</u>

> **23-3.3-102 (7).** Each annual budget request submitted by the commission shall provide information on the proposed distribution of the moneys among the programs developed under this article. Subsequent to final appropriation, the commission shall provide to the joint budget committee an allocation proposal specifically identifying the distributions among programs for the coming year. Expenditures in any program shall not exceed the allocation for that program by more than ten percent of such allocation, and the total appropriation for all student aid programs shall not be exceeded.

The language in the statute is somewhat confusing and no longer conforms to current practice or terminology.

- The Commission submits a budget request for appropriations to certain line items—as opposed to a "proposed distribution of moneys among programs".
- It submits an annual report on financial aid actually distributed after a year has closed out. It has also responded to staff questions about distribution of current-year funds, but staff is not aware of an "allocation proposal" submitted subsequent to final appropriation.
- In FY 2012-13, it used the authority under this article, as it has in some prior years, to transfer $190,510 from the appropriation for Need Based Grants to an appropriation for College Opportunity Fund stipends for students attending private institutions, authorized pursuant to Section 23-18-202 (2) (e), C.R.S. It did this on the basis that the COF private stipends are based on Pell-eligibility and thus constitute financial aid and an appropriation for a "like purpose". The Department reports that an Attorney General's opinion supports its authority to make this transfer. Nonetheless, it is not clear to staff that this particular transfer fits under the authority granted in Section 23-3.3-102 (7), C.R.S., given that the COF stipends for students at private institutions are created in a different article.

Staff recommends that the Committee sponsor legislation to update this statute to more clearly conform to current practice. To do this, statute would need to specify that:

- The General Assembly may appropriate funds for the purposes specified in the article;

- The Department has authority to transfer some portion of the total funds appropriated for financial aid among line items (10 percent or some smaller amount); and
- Transfer authority extends to College Opportunity Fund stipends to private institutions.

Staff Recommendation – Consider requiring maintenance/increases in institutional financial aid for low-income families

As discussed above, institutional aid has grown substantially in recent years. However, only a relatively limited portion of it is currently directed to need-based aid for low-income students, and at some of the state's largest institutions, the financial burden on low-income students has increased dramatically. In light of this, and in light of the large financial aid request this year, the Committee should consider the following options:

- In return for the substantial additional funding increases for the Governing Boards in FY 2014-15, ask institutions to agree to maintain or increase institutional aid for low-income (or low- to middle-income) students in FY 2014-15. The Governor has reportedly obtained agreement that the institutions will not increase overall tuition more than 6 percent. However, if institutions choose to make changes to their institutional aid, even with the large increases requested in FY 2014-15, lower income students could potentially see larger increases. This could occur if institutions redirect or reduce the need-based institutional aid they are currently providing.

  Staff believes institutions should be requested to submit letters reflecting their agreement not to increase tuition by more than 6.0 percent in return for additional funding. *The General Assembly might also request that such letters also commit that institutions will not reduce their average per-student institutional-aid commitment to resident students with a household income up to some specified amount ($30,000-$50,000).*

- Consider sponsoring legislation to restore statutory language deleted through S.B. 10-003 (or somewhat different language) that requires institutions to devote a certain percentage of institutional aid to need-based aid for resident students.

  Language <u>struck</u> in S.B. 10-003 included the following at Section 23-18-202 (3) (c) (I), C.R.S.:

  > "If an institution of higher education is designated as an enterprise pursuant to section 23-5-101.7, the institution shall annually allocate at least twenty percent of any increase in undergraduate resident tuition revenues above inflation to need-based financial assistance."

  Staff is not certain that restoring this particular language would be desirable or practical in the current environment, but it is worth discussing with the institutions. The table below compares undergraduate resident tuition revenue with the institutional moneys each institution set aside for need-based versus merit-based aid in FY 2012-13.

	FY 2012-13 Resident Undergraduate Tuition Revenue (UGTR)	FY 2012-13 Institutional need-based financial aid for undergraduate resident students		FY 2012-13 Institutional merit-based financial aid for undergraduate resident students	
	Amount	Amount	Aid as % UGTR	Amount	Aid as % UGTR
University of Colorado System					
CU Boulder	$142,928,669	$22,393,844	15.7%	$11,231,328	7.9%
UCCS Colorado Springs	50,422,870	3,616,126	7.2%	2,789,359	5.5%
UCD Denver	57,720,761	8,557,414	14.8%	3,049,245	5.3%
Colorado State University System					
CSU Ft. Collins	135,802,702	18,823,056	13.9%	11,440,278	8.4%
CSU Pueblo	21,311,964	1,314,611	6.2%	645,403	3.0%
Fort Lewis College	10,892,410	188,875	1.7%	1,112,724	10.2%
University of Northern Colorado	49,214,402	5,459,973	11.1%	2,011,469	4.1%
Colorado School of Mines	37,220,532	657,043	1.8%	3,401,241	9.1%
Adams State University	6,858,256	881,087	12.8%	612,459	8.9%
Colorado Mesa University	41,130,875	204,718	0.5%	2,748,915	6.7%
Western State Colorado University	6,645,435	21,000	0.3%	1,328,560	20.0%
Metro State University of Denver	82,698,722	498,474	0.6%	5,275,219	6.4%
Community College System	205,984,162	2,740,336	1.3%	3,912,037	1.9%
Total	**848,831,760**	**65,356,557**	**7.7%**	**49,558,237**	**5.8%**

Source: Data books and other data provided by the Colorado Department of Higher Education

RELEVANCE OF BRIEFING ISSUE TO THE DEPARTMENT'S PERFORMANCE PLAN:

This issue brief addresses the following objectives of the Department of Higher Education's Performance Plan:

> Financial aid does not directly tie to any one Master Plan goal, but is arguably related to all of them: increasing attainment, improving student success, reducing gaps, and restoring fiscal balance.

Examples of related institutional performance measures include: Increase undergraduate credentials awarded; increase retention rates; and reduce disparities in degree completion between resident underserved and non-underserved students.

FY2014 Financial Aid Allocations

Institution	UG Need	GRAD	Work-Study	Total FY2014
Public Four-Year Institutions				
Adams State University	1,293,169	549	372,007	1,665,725
Colorado Mesa University	3,508,341	1,021	656,188	4,165,550
Colorado School of Mines	761,397	418,423	399,966	1,579,786
Colorado State University	5,437,444	866,234	1,608,261	7,911,939
Colorado State University - Pueblo	2,292,107	26,089	696,459	3,014,655
Fort Lewis College	870,005		265,457	1,135,462
Metropolitan State University of Denver	11,583,240		1,930,995	13,514,235
University of Colorado Boulder	4,436,715	730,158	1,451,085	6,617,958
University of Colorado Colorado Springs	2,641,209	103,447	570,237	3,314,893
University of Colorado Denver	3,880,536	2,798,050	744,449	7,423,035
University of Northern Colorado	3,312,100	131,445	933,218	4,376,763
Western State Colorado University	540,337		222,308	762,645
Public Two-Year Institutions				
Arapahoe Community College	1,963,409		274,839	2,238,248
Colorado Northwestern Community College	201,496		69,187	270,683
Community College of Aurora	2,055,607		232,480	2,288,087
Community College of Denver	3,808,664		686,597	4,495,261
Front Range Community College	5,136,123		742,847	5,878,970
Lamar Community College	265,091		108,847	373,938
Morgan Community College	451,859		114,018	565,877
Northeastern Junior College	530,850		152,996	683,846
Otero Junior College	579,384		188,247	767,631
Pikes Peak Community College	4,528,312		771,930	5,300,242
Pueblo Community College	2,867,843		634,073	3,501,916
Red Rocks Community College	2,294,771		285,411	2,580,182
Trinidad State Junior College	757,322		322,338	1,079,660
Local District Colleges				
Aims Community College	1,623,564		257,441	1,881,005
Colorado Mountain College	786,321		102,380	888,701
Non-Profit Private Institutions				
Colorado Christian University	667,548		171,341	838,889
Colorado College	108,002		145,808	253,810
Naropa	102,962		30,000	132,962
Regis University	907,544	413,938	430,033	1,751,515
University of Denver	786,822	75,163	457,108	1,319,093
Area Vocational Schools				
Delta Montrose A.V.S.	65,028			65,028
Emily Griffith Technical College	210,948		39,724	250,672
Pickens Technical Center - Voc Tech	220,689		25,217	245,906
For-Profit Private Institutions				
Art Inst of CO	367,821		203,705	571,526
Everest (Blair Jr College)	238,877		-	238,877
Everest (Parks Jr College)	364,972		9,688	374,660
Colorado Technical Univ	251,842		-	251,842
ConCorde Career Inst	135,958		-	135,958
Devry (Denver Technical)	234,570		-	234,570
Heritage College	35,997		-	35,997
Intellitec Coll--CS	75,038		-	75,038
Intellitec Coll--GJ	44,460		-	44,460
Intellitec Health/Med1	148,381		-	148,381
International Bty	39,350		-	39,350
IBMC	35,997		-	35,997
Rocky Mtn Col A&D	66,448		115,755	182,203
Redstone (Westwood Aviat)	94,609		-	94,609
Westwood Coll Tech	83,206		-	83,206
TOTAL	73,694,285	5,564,517	16,422,640	95,681,442

Informational Issue: Tuition increases

For over a decade, published tuition and fees and total revenue received per student by public higher education institutions have increased far more rapidly than the consumer price index. The Governor's proposal would support institutional revenue increases of 7.5 to 8.8 percent for resident students, although actual increases are likely to be less at many institutions.

SUMMARY:

- Published tuition and fees for Colorado institutions more than doubled, and in some cases tripled, between FY 2000-01 and FY 2013-14, reflecting a rate of increase far greater than the Consumer Price Index. Total revenue received by each institution (General Fund plus resident and non-resident tuition) has also increased substantially in the last ten years, even after adjusting for inflation.

- The Governor has requested an increase of 11.0 percent General Fund to be allocated equally among the governing boards in return for an agreement that institutions will limit tuition increases to *at most* 6.0 percent for resident students. If all institutions were to increase tuition by 6.0 percent and enrollment were flat, the request would allow for a total revenue increase per institution of 7.5 to 8.8 percent for resident students.

- Some of the key drivers behind increasing tuition include cuts to state support, rising personnel costs (managed through employment of more part-time and adjunct staff), and costs associated with student amenities.

DISCUSSION:

Increases in Higher Education Costs

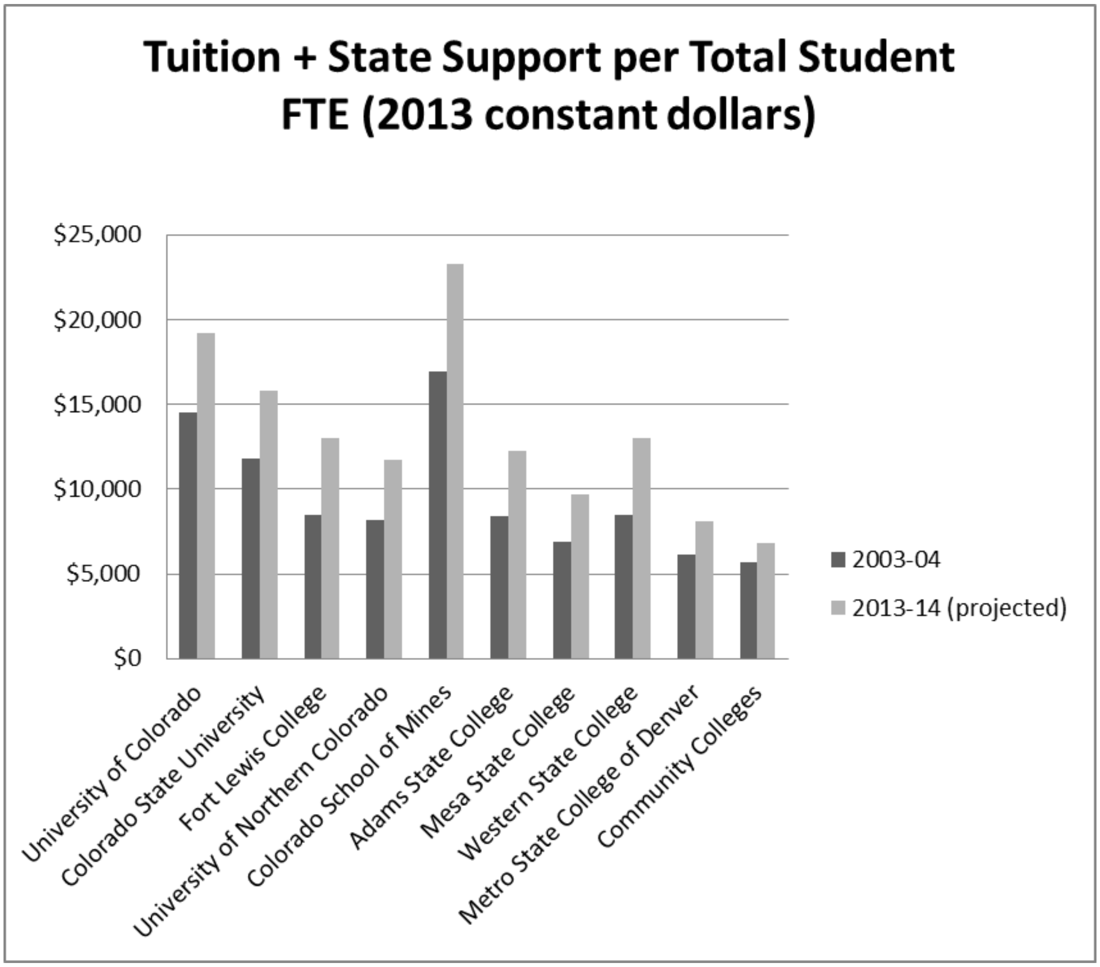
Nationwide, tuition increases for higher education have been increasing at a rate well above inflation for at least two decades.[13] Colorado's increases have been particularly rapid in recent years, as reflected in the table below. Published tuition and fees in FY 2013-14 range from double to more than triple FY 2000-01 tuition and fees, reflecting average annual increases of 5.6 percent to 10.1 percent—far above the average annual increase in the Denver-Boulder-Greeley consumer price index of 2.2 percent over this period.

[13] The College Board, Trends in College Pricing 2013

Published Tuition and Fees - Resident Undergraduates								
Institution	**FY 00-01**	**FY 04-05**	**FY 08-09**	**FY 12-13**	**FY 13-14**	**1 year increase**	**5 year avg. annual increase (FY 09 to FY 14)**	**Average annual increase since FY 00-01**
CU-Boulder	$ 3,188	$ 4,341	$ 7,278	$ 9,482	$ 10,347	9.1%	7.3%	9.5%
CSU-Ft. Collins	3,133	3,790	5,874	8,649	9,273	7.2%	9.6%	8.7%
Metropolitan State	2,224	2,598	3,241	5,341	5,744	7.5%	12.1%	7.6%
Mines	5,412	7,082	11,239	15,654	16,485	5.3%	8.0%	8.9%
University of Colorado - Colo Springs	2,980	4,149	6,676	8,239	8,659	5.1%	5.3%	8.6%
University of Colorado - Denver	2,698	3,978	6,279	8,940	9,476	6.0%	8.6%	10.1%
Colorado State University - Pueblo	2,369	3,220	4,747	7,327	7,327	0.0%	9.1%	9.1%
Fort Lewis College	2,331	3,060	4,196	6,462	6,923	7.1%	10.5%	8.7%
University of Northern Colorado	2,753	3,370	4,680	6,837	7,168	4.8%	8.9%	7.6%
Adams State University	2,186	2,603	3,790	6,402	7,449	16.4%	14.5%	9.9%
Colorado Mesa University	2,185	2,724	4,739	6,870	7,206	4.9%	8.7%	9.6%
Western State Colorado University	2,270	2,761	3,778	6,449	7,343	13.9%	14.2%	9.5%
Community Colleges (average)	1,950	2,258	2,728	3,737	3,950	5.7%	7.7%	5.6%
Denver-Boulder-Greeley average annual CPI increase over the same period						**2.9%***	**1.9%**	**2.2%**

*Legislative Council Staff Forecast for CY 2012 to CY 2013

Although tuition increases have been driven in part by declines in state support, total *revenue* to institutions per student FTE from resident and non-resident tuition and state support has also increased very substantially, as reflected in the chart below, which compares FY 2003-04 tuition plus state support per student FTE *in 2013 dollars* with comparable projected figures for FY 2013-14. Even after adjusting for inflation, staff estimates that over the last ten years, combined tuition plus state support per student FTE has increased between 22 percent (community colleges) and 53 percent (Western State and Fort Lewis). Institutions have achieved these substantial increases through a combination of in-state and out-of-state tuition increases and increasing the share of their student body that is non-resident.



The Governor has requested an increase of 11.0 percent General Fund to be allocated equally among the governing boards in return for an agreement that institutions will limit tuition increases and that such increases will be at most 6.0 percent for resident students. The table below shows the potential overall increase for each institution associated with in-state students assuming flat student enrollment and that each institution increases tuition by 6.0 percent. As *shown, the request would allow for a total increase per institution of 7.5 to 8.8 percent under this hypothetical scenario.*

Staff encourages the JBC to ask institutions for more specific data concerning their projected increases to tuition and fees if the General Assembly approves the executive request. Many institutions will not increase tuition at the 6.0 percent level. Nonetheless, the fact that the Governor did not obtain agreement for a <u>lower</u> tuition revenue increase across-the-board reflects the bottom-line pressures facing state institutions.

Hypothetical Total Revenue Increase to Institutions Associated with In-state Students for FY 2014-15 (based on 11.0 percent increase state support, 6.0 percent tuition increase, and no change in student FTE)							
	2013-14 resident tuition	2013-14 state support	FY 2013-14 Total	2014-15 tution assuming 6.0 percent increase	2014-15 state support request	FY 2014-15 Total	Potential Revenue Increase from In-state Students FY 2013-14 to FY 14-15
University of Colorado	$402,932,763	$164,781,576	$567,714,339	$427,108,729	$182,907,549	$610,016,278	7.5%
Colorado State University	198,567,575	109,843,542	308,411,117	210,481,630	121,926,332	332,407,961	7.8%
Fort Lewis College	11,916,305	9,540,320	21,456,625	12,631,283	10,589,755	23,221,039	8.2%
University of Northern Colorado	64,234,798	33,638,140	97,872,938	68,088,886	37,338,335	105,427,221	7.7%
Colorado School of Mines	50,177,739	16,813,547	66,991,286	53,188,403	18,663,037	71,851,441	7.3%
Adams State College	11,724,734	11,582,905	23,307,639	12,428,218	12,857,025	25,285,243	8.5%
Colorado Mesa University	49,064,381	20,077,706	69,142,087	52,008,244	22,286,254	74,294,498	7.5%
Western State Colorado University	7,375,885	9,532,909	16,908,794	7,818,438	10,581,529	18,399,967	8.8%
Metro State University of Denver	92,431,931	39,228,093	131,660,024	97,977,847	43,543,183	141,521,030	7.5%
Community Colleges	233,713,020	129,678,393	363,391,413	247,735,801	143,943,016	391,678,817	7.8%
TOTAL	1,122,139,131	544,717,131	1,666,856,262	1,189,467,479	604,636,015	1,794,103,494	7.6%

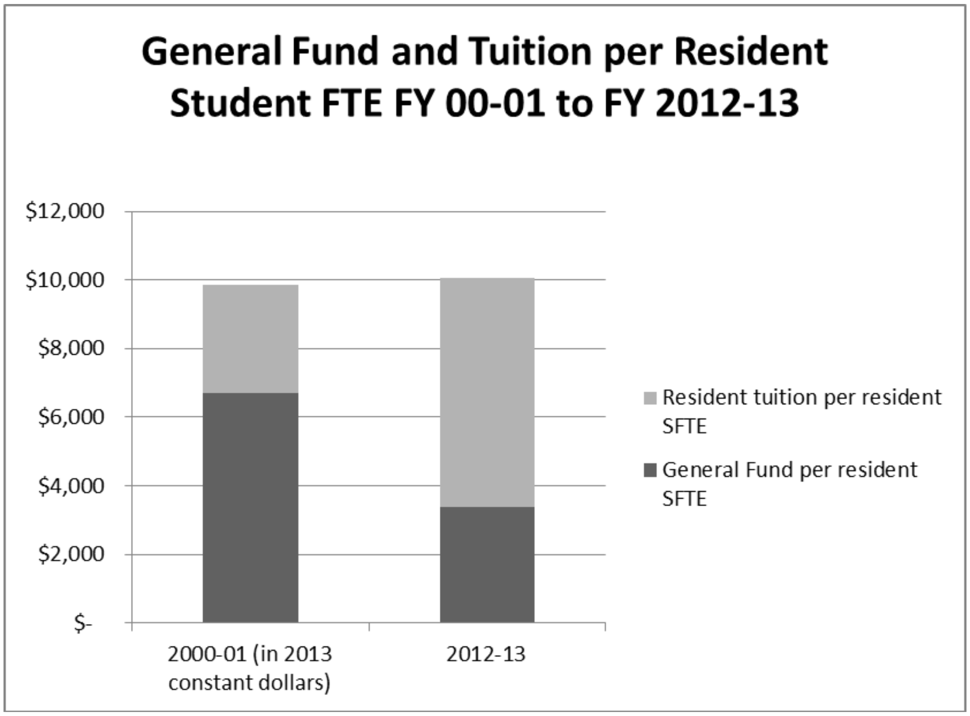
Why Do Higher Education Costs Increase So Quickly?

The reasons for the increases are complex, but the following items are typically cited in national literature, and are therefore explored in some additional detail in this issue:

- Cuts to state support
- Higher education depends more heavily than some other sectors on personnel, including a group of high cost faculty personnel who operate in a national marketplace. For all institutions, key personnel costs—such as health insurance—have grown.
- Administration and support costs have grown
- Costs associated with student amenities, such as recreational centers and dormitories have grown
- Institutions have increased charges to maintain their "status" relative to other market-players and many have moved toward a "high tuition"/"high aid" model.

Staff is not in a position to give a definitive explanation of the various factors driving higher education costs. However, staff has used data readily available to provide some additional information on each of these points.

Cuts to State Support: Reductions to state support have been a significant factor driving cost increases for resident students. As reflected in the chart below, in FY 2000-01 (and for much of the prior decade), General Fund comprised about two-thirds of total tuition plus state support. By FY 2012-13, the relationship had flipped, so that General Fund comprised about one-third of total tuition plus state support.



This is clearly one of the most important factors driving resident student tuition increases. Further, as shown in the chart, if examined from this perspective, the total revenue to each institution per resident student does not appear to have increased substantially since FY 2000-01. However, as reflected in the previous chart, total revenue per student, *if non-residents are included*, has increased substantially for every governing board. Thus, institutions have increasingly relied on non-resident students, who pay a disproportionate share of costs, to cover overall increases in their costs.

Costs for staff and benefits, administration and support: When asked about rising costs, institutions typically focus on rising costs of staff salaries and benefits, increases in information technology costs, and increases in student support costs (counseling and tutoring). Institutional critics often point to excessive administrative costs. *Staff does not have sufficiently granular data to explain institutional cost drivers*. However, the following points are worth noting:

- The State Higher Education Executive Officers (SHEEO) has suggested that a different measure for inflation among higher education institutions should be used, instead of the CPI, based on the provider perspective. The Higher Education Cost Adjustment (HECA) Index designed by SHEEO relies on the federal Employment Cost Index for 75 percent of the index, based on the assumption that personnel comprise 75 percent of higher education costs and the Gross Domestic Product Implicit Price Deflator for the remaining 25 percent of the index. The HECA index reflects a 40 percent change in costs from 2000 to 2012, compared to a 33 percent increase in the CPI over the same period.[14] *Staff does not propose to use the HECA, but recognizes that it provides an important provider perspective on cost drivers.*

[14] State Higher Education Executive Officers, *State Higher Education Finance FY 2012*, College Board, 2013.

- While institutions may be concerned about rising faculty salaries, in practice, institutions have been aggressive in controlling instructional costs. Staff compared budget data book information submitted by CSU Fort Collins and CU Boulder changed between FY 2004-05 and FY 2012-13.

  - At both Boulder and Fort Collins, the ratio of instructional (education and general) students to faculty has improved since FY 2004-05, but that increase has been driven by growth in part-time faculty and staff with lower compensation. At Boulder, the total ratio of instructional (education and general) students to faculty has improved since FY 2004-05 from about 14:1 to 12:1, but that increase has been driven entirely by growth in part-time faculty and staff with lower compensation. Likewise at Fort Collins, the number of full time faculty has been kept flat, even though overall ratios of instructional faculty to students have improved.

  - Overall, the portion of the budget devoted to instructional faculty and staff costs has declined slightly (Boulder) or substantially (Fort Collins) since FY 2004-05. At Fort Collins, institutional support (administration) and student services are both growth-areas.

- At most community colleges, part-time staff comprise the vast majority of staff (approximately 72 percent) and are paid, on average about $18,000 for a 30-credit hour, full-time load.

- Compared to other states, Colorado provides not only relatively little state support per FTE, but also operates at relatively low institutional costs per student.[15] This does not suggest that there is no room for improvement, but does suggest the challenges in bringing higher education costs under control.

Costs for Student Amenities and Physical Plant: Institutions frequently cite demand for student amenities such as recreational centers and elegant dorms as significant cost-drivers in student cost-of-attendance. As noted previously with respect to Western State Colorado University and Adams State University, many institutions feel that they are in an “arms race” to attract students, including non-resident students. This drives an array of costs that may ultimately be detrimental to both students and institutions, but that institutions apparently feel powerless to avoid in an environment in which they are so dependent upon tuition revenue for survival.

Institutional Status and “High Tuition/High Aid”: Over the last two- to- three decades, there has been growing pressure on institutions to set high tuition prices based on marketing considerations. Thus, they will establish high tuition prices to be comparable to “peer” institutions and then offer students merit-aid to attend, effectively reducing their net tuition take per student below their published price. Staff compared gross tuition revenue reported by the institutions to the portion devoted to scholarships and fellowships between FY 2004-05 and FY

[15] SHEEO, *State Higher Education Finance FY 2011-12*.

2012-13. As anticipated, for most institutions, a greater share of revenue has been devoted to scholarships of one kind or another over time, so that the gap between gross and net tuition revenue has grown. While about 39 percent of these moneys are directed to students who complete an application for need-based aid, the majority is for merit-based aid. *One way to look at this is if institutions were not engaged in this practice, they could potentially reduce their published prices by several percent.*

Net Tuition (Tuition less Institutional Aid) as a Percentage of Gross Tuition		
	FY 2004-05	**FY 2012-13**
CU System	95%	91%
Mines	88%	87%
UNC	95%	80%
CSU System	91%	88%
Adams	95%	89%
CMU	95%	91%
Metro	97%	94%
Western	95%	75%

Source: Budget Data Books

RELEVANCE OF BRIEFING ISSUE TO THE DEPARTMENT'S PERFORMANCE PLAN:

This issue brief addresses the following objectives of the Department of Higher Education's Master Plan:

> **Restore fiscal balance**: Develop resources through increases in state funding that will allow public institutions of higher education to meet projected enrollment demands while promoting affordability accessibility and efficiency.

Individual institutions have different performance metrics, but one example is a measure to "moderate resident undergraduate tuition increases when state General Fund revenues increase above inflation".

Issue: Outcomes-based Funding – An Alternative to the College Opportunity Fund Program?

The College Opportunity Fund (COF) program supports higher education programs through stipends and fee-for-service contracts. As implemented, the COF has not changed institutional incentives and is bureaucratically cumbersome. An alternative funding scheme could also keep tuition revenue outside of the state's TABOR revenue calculation, as long as the structure is based on contracts between the State and the institutions. Nationwide, many states are turning to performance- or outcomes-based contracts as a mechanism for funding higher education.

SUMMARY:

- Colorado's College Opportunity Fund Program (COF) provides: 1) a fixed stipend paid to each institution on behalf of each COF eligible student (Colorado resident undergraduates and students without lawful presence who became eligible under the 2013 ASSET bill); and (2) a fee-for-service contract with each institution to cover services not funded by the stipend.

- As implemented, the COF has not changed incentives for institutions. The State, in effect, contracts with institutions for block-amounts that support both educating resident students and other higher education functions. Stipend and fee-for-service appropriations are adjusted multiple times each year to hit the desired block amounts. This program is bureaucratically cumbersome.

- The primary benefit of the COF funding structure has been to remove higher education tuition revenue from the state's TABOR revenue calculation. Based on consultation with the Office of Legislative Legal Services, staff believes an alternative funding structure could be adopted that would keep tuition outside the TABOR calculation, as long as the General Assembly is careful that all agreements to fund the institutions are based on contractual relationships.

- Nationwide, many states are turning to performance- or outcomes-based contracts as a mechanism for funding higher education. Colorado has a statutory provision that requires the Department of Higher Education to present initial plans and measures for performance funding on December 1, 2013. Under the current statute the funding scheme would not be implemented until certain triggers are met, likely many years in the future.

RECOMMENDATION:

On December 1, 2013, the Department of Higher Education will be submitting its proposals for how funding will be associated with institutional performance contracts. The Joint Budget Committee and the Education Committees should consider whether the proposed funding scheme appears likely to meet desired goals, request that the Department make changes if necessary, and consider changing the triggers so that implementation can begin as early as FY 2015-16.

Whether or not the General Assembly wishes to emphasize outcomes-based funding, consider requesting the Department/CCHE, in consultation with the governing boards, present, by fall 2014, some alternative proposals for structuring higher education funding that would be contractually-based and less cumbersome than the COF.

DISCUSSION:

The College Opportunity Fund Program and its Weaknesses

Colorado's College Opportunity Fund (COF) Program differs substantially from the funding structure used in other states. The COF includes two components: (1) a fixed stipend paid to each institution on behalf of each COF eligible student (Colorado resident undergraduates and students without lawful presence who became eligible under the 2013 ASSET bill); and (2) a fee-for-service contract with each institution to cover services not funded by the stipend. As specified in statute, the fee-for-service contract is to address: educational services in rural areas or communities, graduate school services, educational services that may increase economic development opportunities, and specialized educational services such as dentistry, medicine, veterinary medicine, nursing, law, forestry, and engineering. The COF was created through S.B. 04-189 based on the recommendations of a Blue Ribbon Panel on Higher Education appointed by then-Governor Owens.

Some legislators and other stakeholders who formulated the COF expected that it would significantly change the higher education funding structure and incentives for institutions. However, *as it was implemented,* it did not. Essentially since the program's inception, funding requested and approved for the state's public higher education institutions has been based on total funding for each governing board (stipends + fee-for-service contracts). As the number of students qualifying for COF stipends has changed, institutional fee-for-service contracts have been adjusted to compensate for any increase or decrease in stipend funding. Thus, while funding is ostensibly based on number of students + specific additional contractual obligations, in reality, institutions are allocated block-funded amounts that support both educating resident students and additional higher education obligations in a blended fashion.

Various reports have highlighted problems in the COF as it was ultimately implemented. Among these was the 2009 report from the Western Interstate Commission on Higher Education which was conducted pursuant to a requirement of the original 2004 COF legislation. As summarized in the WICHE report, based on interviews with policy proponents, the goals of COF were as follows:

- "Provide the legal and philosophical grounds for allowing public higher education institutions and the tuition revenue they collect to be exempt from the revenue and expenditure limitations imposed by the Taxpayers Bill of Rights (TABOR)."

- Enhance market forces to "compel higher education institutions to become more disciplined and efficient in their operations, as well as more conscious of the need to recruit state residents."
- "Promote access to higher education for underrepresented populations, including the poor, minorities, and males."

The report concluded that the policy had *only* achieved the goal of exempting higher education tuition revenue from TABOR and that none of the other aims had been achieved. It reported that, from the COF's inception through 2006, Colorado's overall higher education enrollment fell (in contrast to national enrollment trends that reflected growth) and those students from underrepresented racial/ethnic and low-income backgrounds were less likely to be enrolled in higher education than previously.[16] A more recent analysis by the State Auditor's Office that included data through 2010 found that although overall enrollment among underrepresented groups has increased somewhat, this growth has not kept pace with these groups' representative growth in Colorado's population.[17]

The 2012 audit was also critical of the COF, noting—like the WICHE report--that the COF had never been fully implemented as intended: institutions do not receive more COF Program funding when student enrollment increases in a given year, nor do institutions receive less funding when enrollment is lower than anticipated.

There are doubtless a number of reasons the COF was implemented this way. A major factor was simply available state revenue. The COF was first implemented in FY 2003-04, when the State was reeling from recession. As a result, the initial stipends were far lower than the Blue Ribbon Commission anticipated. When recession hit again in 2009, the number of students enrolling in higher education increased, but state funds were not available to support these additional students or even fund at the previous base level. Thus, the General Assembly had little choice but to balance the higher education budget by cutting stipend levels.

The COF Should Be Changed: Staff recommends changing the COF structure.

- As it presently operates, the COF complicates budgeting and accounting for higher education at all levels and drives additional bureaucracy. To obtain the COF stipend, an eligible undergraduate must apply for the stipend and be admitted to a state or private participating institution of higher education. The institution then requests that CollegeAssist (a unit of the Department of Higher Education) provides the stipend payment to the institution so the fund can be applied against the student's in-state tuition cost. Qualified students receive stipend payments on a credit-hour basis for undergraduate instruction up to a lifetime limitation of 145 hours.

[16] Western Interstate Commission on Higher Education, *An Evaluation of Colorado's College Opportunity Fund and Related Policies*, 2009.
[17] Colorado Office of the State Auditor, *Performance Audit of the Implementation of the Colorado Opportunity Fund Program*, June 2012.

- At the institutional level, bureaucratic mechanisms have had to be put in place to ensure that students register for COF stipends, to ensure proper counts of the numbers of students eligible for stipends, and to ensure that institutions are reimbursed from the appropriate funding source. Institutions must be aggressive in ensuring students sign up for the COF upon registration and must put considerable effort into tracking down students who don't. They must ensure students are within COF credit-hour limits and must work with students who apply for waivers of these limits. They must track and submit stipend-related data to the Department throughout the year.

- At the Department level, CollegeAssist staff must receive and reconcile institutional data on COF-eligible students, while budget and other financial unit staff hear student requests for waivers to COF credit-limits, and submit requests for budget adjustments to true-up stipend funding consistent with actual enrollment throughout the year.

- With respect to the Long Bill and legislative processes, the funding structure requires most higher education General Fund support to be double counted as General Fund and reappropriated funds. Multiple annual supplemental adjustments are required that do not actually change the total funding provided to any institution.

- The sole benefit of the COF, as implemented, appears to be to remove higher education tuition from TABOR cash revenue calculations. This is a real benefit. However, as discussed further below, the Office of Legislative Legal Services concurs with JBC staff that this could also be accomplished through a different kind of higher education funding structure, as long as it involved a contractual relationship between the state and the institutions.

- In theory, the General Assembly could choose to implement the COF more as originally intended and then see if the system provides any real benefits with respect to institutional behavior. However, staff does not think this is a realistic option over the long term because of the counter-cyclical nature of higher education enrollment and funding. In times of recession, the number of students seeking higher education tends to increase while the state funds available decrease. Thus, it is difficult for the General Assembly to truly implement a structure such as COF stipends that requires an increase in state funding (for enrollment) at precisely the moment the State is least capable of allocating additional funds and is, instead, looking for cuts. Higher education also typically takes a larger share of state cuts than other programs supported by the General Fund because higher education institutions are able to shift costs to student tuition. This pattern has held true in Colorado and the rest of the nation for many years.[18] Staff sees no reason to expect that this fundamental pattern will change. Thus, staff does not believe the COF *can* be implemented as intended over the long term.

[18] State Higher Education Executive Officers (SHEEO), *State Higher Education Finance FY 2012*, College Board, 2013.

- The COF does not appear to have achieved stated goals related to improving institutional performance. A different funding system *might* have a better chance of achieving these kinds of goals. Nationally, states are focusing increasingly on numbers of students who complete or at least progress through the higher educational pipeline, rather than focusing solely on "bottoms in seats". As part of the 2004 COF structure, the Colorado Commission on Higher Education was responsible for negotiating a performance contracts with each institution that were expected to focus on outcomes such graduation rates and participation of underrepresented groups. However, as indicated in both the WICHE report and the State Audit, because the performance system had no real teeth, the performance contract requirements have been relatively meaningless. If the General Assembly is interested in performance, it might do better to focus on this more directly, rather than relying on competition among institutions for student stipends to achieve the stated goals.

TABOR Enterprise Status

Despite multiple years of COF-criticism, there has not thus far been a successful effort to modify the program. The primary reason seems to be a widespread desire to preserve the one clear COF success: removing tuition revenue from the state's TABOR revenue calculation.

Article X, Section 20 of the State Constitution (Taxpayers Bill of Rights or TABOR) effectively limits growth in total state revenue from all sources (General Fund and cash) to inflation plus population growth, from a base level reset through Referendum C in 2005. Revenue from "enterprises" is not included in the TABOR revenue calculation. To qualify as an enterprise, an entity is required to be a government-owned business authorized to issue its own revenue bonds and receiving less than 10 percent of its annual revenue in grants from all Colorado state and local governments combined. Pursuant to Section 23-5-101.7, C.R.S., a higher education governing board may designate its respective institution(s) as an enterprise.

Virtually all higher education institutions are now classified as enterprises because neither COF stipends *nor* COF fee-for-service contracts with state institutions are counted by the Office of the State Auditor as "grants". These funds are instead considered either funding provided to the student, rather than the institution (stipends) or contracts for services rendered (fee-for-service) and are thus excluded from the 10 percent limit on revenue from state and local governments. Only capital construction appropriations are treated as grants for purposes of the 10 percent calculation. (Dianne Ray, Memo to Members of the Legislative Audit Committee: Higher Education Enterprise Status, November 27, 2012).

Keeping higher education cash revenue outside of the state's TABOR revenue calculation remains important. Pursuant to Section 24-77-103, C.R.S., if entities are not TABOR exempt, both their base total funding and their annual increases become part of the TABOR revenue calculation. Thus, if a non-exempt entity's cash fund revenue is growing more quickly than inflation + population, it will drive the overall state TABOR revenue calculation toward the TABOR inflation + population growth cap. Higher education tuition revenue has clearly been growing more quickly than inflation + population.

The State is approaching its TABOR cash revenue caps. Legislative Council Staff projects that the State will be below the TABOR/Referendum C revenue cap in FY 2014-15 and FY 2015-16 by a bare $52 million and $43 million, respectively. The Office of State Planning and Budgeting similarly projects that the State will be within 4.0 percent of the TABOR revenue cap in FY 2014-15 and FY 2015-16. If revenue exceeds the limit due to higher-than-expected revenue growth, the State will need to refund the excess revenue to citizens. Because of this, placing higher education revenue within the state TABOR revenue calculation could create problems. It could either drive an earlier and larger General Fund refund or require the General Assembly to limit institutional tuition revenue more than is practical.

After consultation with the Office of Legislative Legal Services, staff believes that the TABOR enterprise status of state higher education institutions can be maintained without the COF, as long as the General Assembly is careful that agreements to fund the institutions are based on a contractual relationship. The Office of the State Auditor counts both stipend and fee-for-service revenue as contractual revenue to the institutions and not as grant revenue. Thus, staff believes that all funding to the institutions could be shifted to the fee-for-service category without jeopardizing institutional enterprise status. Indeed, OLLS and JBC staff believes a contract that more clearly outlined the state's contractual agreements with institutions and the specific activities the General Assembly is purchasing might provide a *stronger* rationale for designating higher education institutions as enterprises than the current fee-for-service/stipend structure.

History of Performance Focus and Funding in Colorado
Colorado has a history of legislation intended to improve higher education institutional performance, with little evidence that efforts thus far have yielded results. Specific proposals related to the latest iteration are due December 1, 2013.

Quality Improvement System: From 1997 through 2003, the Higher Education Quality Assurance Act (H.B. 96-1219) mandated a Quality Indicator System (QIS) to measure the overall performance of the statewide system of higher education. Statute required that each institution's performance be measured against benchmarks and that the results of the QIS be incorporated in the CCHE funding recommendation and distribution for the higher education system. As of 2003, the QIS incorporated bachelor degree graduation rates, freshman retention and persistence rates, minority graduation rates, achievement scores on licensure and graduate admission exams, career and technical graduates employed, level of administrative expenditures as a percent of total expenditures per student FTE, sizes of student classes, and teaching hours-per-week per faculty member, and two measures selected by each institution. At least as of FY 2001-02, both the CCHE and OSPB requests reflected allocating the entire annual increase for the year (about 4 percent) consistent with institutional performance on the QIS.

Performance Contracts: Institutions considered the QIS burdensome. As part of the switch to the COF structure in S.B. 04-189, new performance contracts were instituted in lieu of the QIS. Institutions that entered into a performance contract with CCHE were exempted from the QIS requirements, as well as other elements of CCHE oversight, such as CCHE approval of academic programs. From 2005 through 2010, performance contracts were negotiated and submitted by each institution addressing: (1) access and success (retention and graduation rates); (2) quality in undergraduate education; (3) efficiency of operations; (4) teacher education; and (5) workforce/economic development.

There is little evidence that these performance contracts have been meaningful. The 2009 WICHE report noted that the Performance Contracts seemed to have little impact, given their lack of teeth. The OSA audit report likewise found that: goals were not always clearly defined or measurable; in some cases appeared to have been chosen poorly (e.g., transfer rates from 2-year institutions were not included), and that the data used was inconsistent across institutions and often inaccurate.

In response to the audit, the Department committed to remedy these problems by December 2012 through the changes mandated through S.B. 11-052. Senate Bill 11-052 added Section 23-1-108 (1.5 through 1.9), C.R.S., requiring new performance contracts be finalized that are consistent with the Higher Education Master Plan, no later than December 1, 2012 and that these be further developed into a performance-based funding structure.

S.B. 11-052 and Performance-based Funding: Pursuant to Section 23-1-108 (1.9), C.R.S., on or before **December 1, 2013**, CCHE must create a performance-based funding plan to appropriate to each government board a portion of the performance funding amount for the applicable state fiscal year based on the success demonstrated by each institution in meeting performance contract goals and expectations specified in the institution's performance contract.

As the statute is currently structured, the performance-based funding becomes effective within the following constraints:

- Performance funding is first applied starting **FY 2016-17**, assuming sufficient funding is available to meet the statutory requirements below. (Note that the last year of tuition flexibility for the institutions is FY 2015-16.)

- The amount available for performance funding is 25 percent of the amount by which the General Fund appropriation for the state system of higher education, excluding financial aid, exceeds $650 million. However, this only applies if total General Fund support, excluding financial aid, exceeds $706 million.

If the trigger in this bill remains unchanged, it will likely be well after FY 2016-17 before any performance funding is implemented and, even then, the financial impact would be small.

- FY 2013-14 General Fund support for the Department, excluding financial aid and History Colorado, totaled $547.1 million. Thus, **to reach $706.0 million, an additional General Fund appropriation of $158.9 million for the Governing Boards would be required by FY 2016-17**. To also comply with related obligations for financial aid, the General Assembly would need to increase higher education funding by about $61.5 million per year for the next three years.

- Based on the statutory specifications, **even if governing board funding were to reach $706 million, only $14 million (less than 2.0 percent) would be allocated for**

performance funding ($706-$650 million=$56 million; $56 million * .25 = $14 million).

It further requires that after the FY 2014-15 state fiscal year, the commission, based on the performance-based funding plan adopted in the master plan, shall recommend to the joint budget committee the portion of the performance funding amount to be appropriated to each governing board, including the governing boards for the junior colleges and the area vocational schools, based on the demonstrated performance of the institutions in meeting the goals and expectations specified in the institutions' respective performance contracts.

Performance-based Funding: The National Context

Performance-based funding for higher education is currently being explored by a large number of states, and many have implemented it, at least to some degree. Twelve states—Illinois, Indiana, Louisiana, Michigan, Minnesota, New Mexico, Ohio, Oklahoma, Pennsylvania, South Dakota, Tennessee and Washington—have funding formula in place that provide some amount of funding based on performance. That said, NCSL notes that knowledge about the effectiveness of performance-based funding is limited, as only recently have states begun to allocate a more significant amount of funding to this, typically in the range of 5 percent to 25 percent of total funding.

States are experimenting with a variety of approaches. Most involve degree attainments and course completion rates, often with additional credit or focus on success for at-risk students (e.g., low income, minority). Some include other 'impact' measures such as job placement rates or "efficiency" components for items such as limiting tuition growth or hitting cost per credit hour targets.

The Tennessee Model

Tennessee presents a particularly interesting example because it has shifted about 85 percent of its total higher education funding into outcomes. This is radically different from the approach taken by most states, which have devoted far smaller portions of their funding to performance or outcomes-based incentives.

Key components of the model include:

- Awards "points" based on measures such as number of students completing certain numbers of credit hours or graduating, and then pays institutions for their points x a dollar multiplier (average national salary cost at 4 year institutions & 2 year institutions). As a result, incorporates enrollment levels into the calculation and generates an estimate of "full funding need" for each institution. Out-of-state student financial contributions are deducted from the need, and the state provides an equal percentage of the remaining full-funding need for each institution, based on state funds available.
- All four year institutions use the same metrics and all two-year institutions use the same metrics, however, the weight applied to each metric at each institution differs, based on the institution's mission. Thus, graduation rate might be a far more weighted element at one institution than another.
- Adults over age 25 and low-income students are more heavily weighted (weight of 1.4)

- 4 year institution metrics: students accumulating 24, 48, 72 hours; bachelor, master, and doctoral degrees attained; research/grant funding; transfers out with 12 hours; degrees per 100 FTE; six-year graduation rate.
- 2 year institution metrics: students accumulating 12, 24, and 36 hours; dual (concurrent) enrolled students; associates degrees; graduates placed in jobs; remedial/developmental success; transfers out with 12 credit hours, workforce training, degrees awarded per 100 FTE.
- Phased-in over three years.
- Data and models available on-line which institutions and the public can use to test the impact on an institution's funding of potential changes in performance with various assumptions about how other institutions perform.
- Additional information available at: http://www.state.tn.us/thec/

Key Features of a Functional Performance Contract Structure
Balance between common goals and specific missions of each institution: Colorado's higher education institutions have a variety of missions and student populations that differ considerably, so a "one size fits all" performance structure will not be effective. However, staff believes that allowing each institution to choose multiple separate goals will greatly reduce the usefulness of any performance funding approach. As reflected above, Colorado has a history of pushing centralized performance review with little clear evidence that these performance goals shape institutional behavior. One reason for this, as clear from the recent state audit, is that a large number of goals, negotiated between DHE/CCHE and the individual institution is almost impossible for the Department to effectively police.

Institutional agreement—and policing: If the General Assembly wishes to establish a funding-distribution mechanism that has any true "teeth", staff believes it will need to be something that: (1) the institutions all agree to; and (2) the institutions help police for the system as a whole. This is most likely to occur if: (a) the measurements used to determine performance are the same for all institutions (with adjustments, such as weights, associated with each institution's mission); and (b) an institution's performance is compared to that of other institutions—giving each institution an interest in how the other institutions perform and measure performance.

Reliable: Data sources used must be completely reliable and not subject to dispute. To accomplish this, it would be best to rely on *actual year data.* For example, for amounts specified in the Long Bill, the funding distribution for FY 2015-16 would rely on FY 2013-14 actual data to enable budget amounts to be set during the 2015 legislative session. The time lag is potentially problematic, but it will be less of a problem if institutions are well aware of the measures before they begin to impact funding. Alternatively, to avoid such an extensive time-lag, outcomes-based funding would need to be appropriated in a single line item and distributed by CCHE or funding allocations would need to be approved through supplemental budget action.

Durable: Staff recommends that contracts should establish a system of incentives that affects each year of funding and is maintained for at least five years. Otherwise, institutions will simply lobby each year for changes that will provide a more favorable rating, rather than doing the hard work of changing institutional behavior, which takes time.

Stability versus Change: A mechanism that doesn't shift funding over time has no real value as a performance award mechanism. However, a mechanism that shifts funding rapidly and in unpredictable ways is also not useful and will not survive.

"Testable": Any system adopted needs to have mechanisms that allow institutions to test how their funding would be affected by various performance outcomes and by how other institutions perform. They should be able to test how they would have performed for several prior years using the selected measures. This will give all parties a better understanding and greater comfort-level with any system adopted.

Incentivize serving the hard-to-serve/Avoid Perverse Incentives: A major *risk* of a performance-based system is that it will drive institutions to change who they serve at the front-end, i.e., who they admit, instead of incentivizing them to do a better job with those who come in the front door. A major benefit of the Tennessee model is that it gives institutions substantial extra credit for serving harder-to-serve students, i.e., each of these students is counted as "1.4" for funding purposes rather than "1.0". As an institution serves, progresses, and graduates these students it gets 40 percent extra-credit at each stage. Tennessee funding is also deliberately structured to disincentivize an institution from shrinking its student base to increase graduation rates.

A second major risk is that too much emphasis on degrees and progression will lead institutions to cheapen the value of both, encouraging them to move students through to graduation whether they deserve it or not. There are options for dealing with this risk as well which can go as far as using student test data as part of performance metrics.

Adaptable to changes in available state revenue: In Tennessee, the performance contracting system essentially works as an allocation formula. Institutions that do well get a little more of the total, and institutions that do less well get less of the total. The total, however, is determined by the amount of revenue the General Assembly is able to make available in any given year. Based on past history, staff does not believe the General Assembly will be in a position to guarantee a fixed amount of funding for performance contracts. (At one time, it was assumed that stipends would have this effect. Obviously, they did not.)

RELEVANCE OF BRIEFING ISSUE TO THE DEPARTMENT'S PERFORMANCE PLAN:

This issue brief addresses the following objectives of the Department of Higher Education's Performance Plan:

> Outcomes-based funding is related to all of the four master plan goals: increasing attainment, improving student success, reducing gaps, and restoring fiscal balance.

Examples of related institutional performance measures include: Increase undergraduate credentials awarded; increase retention rates; and reduce disparities in degree completion between resident underserved and non-underserved students.

Appendix A: Number Pages

	FY 2011-12 Actual	FY 2012-13 Actual	FY 2013-14 Appropriation	FY 2014-15 Request	Request vs. Appropriation

DEPARTMENT OF HIGHER EDUCATION
Joseph Garcia, Executive Director/Lt. Governor

(1) DEPARTMENT ADMINISTRATIVE OFFICE

Primary Functions: Centrally appropriated items for the Department of Administration, the Commission, the Division of Private Occupational Schools, and the Historical Society. Cash funds reflect the share of costs born by various cash programs within the Department. Reappropriated funds are from indirect cost recoveries.

	FY 2011-12 Actual	FY 2012-13 Actual	FY 2013-14 Appropriation	FY 2014-15 Request	Request vs. Appropriation
Health, Life, and Dental	1,028,168	1,123,166	1,247,031 0.0	1,749,744 0.0	
General Fund	0	0	0	0	
Cash Funds	709,171	768,119	893,372	1,065,134	
Reappropriated Funds	201,398	197,183	190,396	289,250	
Federal Funds	117,599	157,864	163,263	395,360	
Short-term Disability	14,120	14,120	18,973	23,266	
Cash Funds	9,810	9,810	12,997	14,266	
Reappropriated Funds	2,507	2,507	3,357	3,674	
Federal Funds	1,803	1,803	2,619	5,326	
S.B. 04-257 Amortization Equalization Disbursement	223,346	292,914	363,955	431,496	
Cash Funds	155,179	189,165	247,115	264,598	
Reappropriated Funds	39,652	60,046	66,142	68,066	
Federal Funds	28,515	43,703	50,698	98,832	
S.B. 06-235 Supplemental Amortization Equalization Disbursement	179,475	251,723	328,570	404,528	
Cash Funds	124,698	162,564	223,090	248,061	
Reappropriated Funds	31,863	51,602	59,711	63,812	
Federal Funds	22,914	37,557	45,769	92,655	

	FY 2011-12 Actual	FY 2012-13 Actual	FY 2013-14 Appropriation	FY 2014-15 Request	Request vs. Appropriation
Salary Survey	0	0	215,193	176,446	
Cash Funds	0	0	145,257	108,600	
Reappropriated Funds	0	0	39,592	26,406	
Federal Funds	0	0	30,344	41,440	
Merit Pay	0	0	174,977	173,743	
Cash Funds	0	0	119,653	106,451	
Reappropriated Funds	0	0	31,161	26,969	
Federal Funds	0	0	24,163	40,323	
Workers' Compensation	41,652	47,940	179,422	113,355	
Cash Funds	35,643	41,024	170,416	101,896	
Reappropriated Funds	6,009	6,916	9,006	11,459	
Legal Services	33,918	32,247	40,804	40,804	
Cash Funds	9,360	9,550	11,260	11,260	
Reappropriated Funds	24,558	22,697	29,544	29,544	
Administrative Law Judge Services	496	684	1,454	2,501	
Cash Funds	496	684	1,454	2,501	
Purchase of Services from Computer Center	107,140	185,984	156,837	0 *	
Cash Funds	102,158	170,775	151,485	0	
Reappropriated Funds	4,982	15,209	5,352	0	
Multiuse Network Payments	74,792	0	0	0	
Cash Funds	74,792	0	0	0	

	FY 2011-12 Actual	FY 2012-13 Actual	FY 2013-14 Appropriation	FY 2014-15 Request	Request vs. Appropriation
Management and Administration of OIT	98,276	65,636	0	0 *	
Cash Funds	98,276	65,636	0	0	
COFRS Modernization	0	36,461	36,461	36,461	
Cash Funds	0	19,614	19,614	19,614	
Reappropriated Funds	0	16,847	16,847	16,847	
Federal Funds	0	0	0	0	
Information Technology Security	0	0	1,559	0 *	
Cash Funds	0	0	1,503	0	
Reappropriated Funds	0	0	56	0	
Payment to Risk Management and Property Funds	29,085	30,818	141,012	141,132	
Cash Funds	27,803	29,561	138,040	138,332	
Reappropriated Funds	1,282	1,257	2,972	2,800	
Payments to OIT	0	0	0	362,022 *	
Cash Funds	0	0	0	352,229	
Reappropriated Funds	0	0	0	9,793	
Leased Space	493,711	522,579	524,862	535,514	
Cash Funds	89,023	116,661	104,972	107,102	
Reappropriated Funds	404,688	405,918	419,890	428,412	
Colorado State Network	0	0	0	0 *	
Cash Funds	0	0	0	0	

	FY 2011-12 Actual	FY 2012-13 Actual	FY 2013-14 Appropriation	FY 2014-15 Request	Request vs. Appropriation
TOTAL - (1) Department Administrative Office	2,324,179	2,604,272	3,431,110	4,191,012	22.1%
FTE	0.0	0.0	0.0	0.0	0.0%
General Fund	0	0	0	0	0.0%
Cash Funds	1,436,409	1,583,163	2,240,228	2,540,044	13.4%
Reappropriated Funds	716,939	780,182	874,026	977,032	11.8%
Federal Funds	170,831	240,927	316,856	673,936	112.7%

	FY 2011-12 Actual	FY 2012-13 Actual	FY 2013-14 Appropriation	FY 2014-15 Request	Request vs. Appropriation

(2) COLORADO COMMISSION ON HIGHER EDUCATION

Primary Functions: Serves as the central policy and coordinating board for higher education. Cash fund sources include fees from proprietary schools deposited in the Private Occupational Schools Fund and payments from other states for veterinary medicine as a part of the exchange program organized by WICHE. Reappropriated funds are from indirect cost recoveries.

(A) Administration

	FY 2011-12 Actual	FY 2012-13 Actual	FY 2013-14 Appropriation	FY 2014-15 Request	Request vs. Appropriation
Administration	2,593,850	2,995,488	2,713,675	2,811,745	
FTE	28.4	19.6	30.5	30.5	
General Fund	0	0	0	0	
Cash Funds	199,075	187,681	225,032	225,032	
Reappropriated Funds	1,971,012	1,913,395	2,104,057	2,172,350	
Federal Funds	423,763	894,412	384,586	414,363	
SUBTOTAL - (A) Administration	2,593,850	2,995,488	2,713,675	2,811,745	3.6%
FTE	28.4	19.6	30.5	30.5	0.0%
General Fund	0	0	0	0	0.0%
Cash Funds	199,075	187,681	225,032	225,032	0.0%
Reappropriated Funds	1,971,012	1,913,395	2,104,057	2,172,350	3.2%
Federal Funds	423,763	894,412	384,586	414,363	7.7%

(B) Division of Private Occupational Schools

	FY 2011-12 Actual	FY 2012-13 Actual	FY 2013-14 Appropriation	FY 2014-15 Request	Request vs. Appropriation
Division of Private Occupational Schools	616,789	596,538	633,554	657,555	
FTE	7.7	7.8	7.8	7.8	
Cash Funds	616,789	596,538	633,554	657,555	
SUBTOTAL - (B) Division of Private Occupational Schools	616,789	596,538	633,554	657,555	3.8%
FTE	7.7	7.8	7.8	7.8	0.0%
Cash Funds	616,789	596,538	633,554	657,555	3.8%

	FY 2011-12 Actual	FY 2012-13 Actual	FY 2013-14 Appropriation	FY 2014-15 Request	Request vs. Appropriation
(C) Special Purpose					
Western Interstate Commission for Higher Education (WICHE)	125,000	125,000	131,000	137,000	
Reappropriated Funds	125,000	125,000	131,000	137,000	
WICHE - Optometry	395,356	386,731	399,000	399,000	
General Fund	0	62,261	0	0	
Reappropriated Funds	395,356	324,470	399,000	399,000	
Distribution to Higher Education Competitive Research Authority	2,139,494	1,949,310	2,800,000	2,800,000	
Cash Funds	2,139,494	1,949,310	2,800,000	2,800,000	
Veterinary School Program Needs	162,400	162,400	285,000	285,000	
Cash Funds	0	0	122,600	122,600	
Reappropriated Funds	162,400	162,400	162,400	162,400	
Colorado Geological Survey at the Colorado School of Mines	0	878,775	1,863,401	1,863,401	
FTE	0.0	11.4	14.5	14.5	
General Fund	0	0	300,000	300,000	
Cash Funds	0	767,708	1,459,401	1,459,401	
Federal Funds	0	111,067	104,000	104,000	

	FY 2011-12 Actual	FY 2012-13 Actual	FY 2013-14 Appropriation	FY 2014-15 Request	Request vs. Appropriation
SUBTOTAL - (C) Special Purpose	2,822,250	3,502,216	5,478,401	5,484,401	0.1%
FTE	0.0	11.4	14.5	14.5	0.0%
General Fund	0	62,261	300,000	300,000	0.0%
Cash Funds	2,139,494	2,717,018	4,382,001	4,382,001	0.0%
Reappropriated Funds	682,756	611,870	692,400	698,400	0.9%
Federal Funds	0	111,067	104,000	104,000	0.0%
TOTAL - (2) Colorado Commission on Higher Education	6,032,889	7,094,242	8,825,630	8,953,701	1.5%
FTE	36.1	38.8	52.8	52.8	(0.0%)
General Fund	0	62,261	300,000	300,000	0.0%
Cash Funds	2,955,358	3,501,237	5,240,587	5,264,588	0.5%
Reappropriated Funds	2,653,768	2,525,265	2,796,457	2,870,750	2.7%
Federal Funds	423,763	1,005,479	488,586	518,363	6.1%

	FY 2011-12 Actual	FY 2012-13 Actual	FY 2013-14 Appropriation	FY 2014-15 Request		Request vs. Appropriation
(3) COLORADO COMMISSION ON HIGHER EDUCATION FINANCIAL AID						
Primary Function: Provides assistance to students in meeting the costs of higher education. The source of reappropriated moneys is funding transferred from the Department of Human Services for the Early Childhood Professional Loan Repayment program.						
(A) Need Based Grants						
Need Based Grants	74,351,420	74,941,339	79,346,789	109,346,789	*	
General Fund	74,259,868	74,941,339	79,346,789	109,346,789		
Cash Funds	0	0	0	0		
Reappropriated Funds	91,552	0	0	0		
SUBTOTAL - (A) Need Based Grants	74,351,420	74,941,339	79,346,789	109,346,789		37.8%
FTE	0.0	0.0	0.0	0.0		0.0%
General Fund	74,259,868	74,941,339	79,346,789	109,346,789		37.8%
Cash Funds	0	0	0	0		0.0%
Reappropriated Funds	91,552	0	0	0		0.0%
(B) Work Study						
Work Study	16,255,513	16,047,244	16,432,328	21,432,328	*	
General Fund	16,255,513	16,047,244	16,432,328	21,432,328		
SUBTOTAL - (B) Work Study	16,255,513	16,047,244	16,432,328	21,432,328		30.4%
FTE	0.0	0.0	0.0	0.0		0.0%
General Fund	16,255,513	16,047,244	16,432,328	21,432,328		30.4%
(C) Merit Based Grants						
Merit Based Grants	0	0	0	5,000,000	*	
General Fund	0	0	0	5,000,000		

	FY 2011-12 Actual	FY 2012-13 Actual	FY 2013-14 Appropriation	FY 2014-15 Request	Request vs. Appropriation
SUBTOTAL - (C) Merit Based Grants	0	0	0	5,000,000	0.0%
FTE	0.0	0.0	0.0	0.0	0.0%
General Fund	0	0	0	5,000,000	0.0%
(D) Special Purpose					
Veterans'/Law Enforcement/POW Tuition Assistance	443,410	489,699	420,000	672,000 *	
General Fund	443,410	489,699	420,000	672,000	
National Guard Tuition Assistance Fund	800,000	800,000	800,000	800,000	
General Fund	800,000	800,000	800,000	800,000	
Native American Students/Fort Lewis College	11,785,002	12,773,557	14,466,230	15,303,085 *	
General Fund	11,347,562	12,773,557	14,466,230	15,303,085	
Reappropriated Funds	437,440	0	0	0	
GEAR - UP	827,692	842,681	600,000	600,000	
Federal Funds	827,692	842,681	600,000	600,000	
Nursing Teacher Loan Forgiveness Pilot	0	0	0	0	
General Fund	0	0	0	0	
SUBTOTAL - (D) Special Purpose	13,856,104	14,905,937	16,286,230	17,375,085	6.7%
FTE	0.0	0.0	0.0	0.0	0.0%
General Fund	12,590,972	14,063,256	15,686,230	16,775,085	6.9%
Reappropriated Funds	437,440	0	0	0	0.0%
Federal Funds	827,692	842,681	600,000	600,000	0.0%

	FY 2011-12 Actual	FY 2012-13 Actual	FY 2013-14 Appropriation	FY 2014-15 Request	Request vs. Appropriation
TOTAL - (3) Colorado Commission on Higher Education Financial Aid	104,463,037	105,894,520	112,065,347	153,154,202	36.7%
FTE	0.0	0.0	0.0	0.0	0.0%
General Fund	103,106,353	105,051,839	111,465,347	152,554,202	36.9%
Cash Funds	0	0	0	0	0.0%
Reappropriated Funds	528,992	0	0	0	0.0%
Federal Funds	827,692	842,681	600,000	600,000	0.0%

	FY 2011-12 Actual	FY 2012-13 Actual	FY 2013-14 Appropriation	FY 2014-15 Request		Request vs. Appropriation

(4) COLLEGE OPPORTUNITY FUND PROGRAM

Primary Function: Provides General Fund for student stipend payments and for fee-for-service contracts between the Colorado Commission on Higher Education and state higher education institutions.

(A) Stipends

	FY 2011-12 Actual	FY 2012-13 Actual	FY 2013-14 Appropriation	FY 2014-15 Request		Request vs. Appropriation
Stipends for eligible full-time equivalent students attending state institutions	261,370,727	255,106,603	266,622,720	275,419,680	*	
General Fund	159,708,490	17,377,700	28,893,817	37,690,777		
General Fund Exempt	101,662,237	237,728,903	237,728,903	237,728,903		
Cash Funds	0	0	0	0		
Reappropriated Funds	0	0	0	0		
Federal Funds	0	0	0	0		
Stipends for eligible full-time equivalent students attending participating private institutions	1,280,906	1,269,310	1,299,840	1,351,350	*	
General Fund	1,280,906	1,269,310	1,299,840	1,351,350		
SUBTOTAL - (A) Stipends	262,651,633	256,375,913	267,922,560	276,771,030		3.3%
FTE	0.0	0.0	0.0	0.0		0.0%
General Fund	160,989,396	18,647,010	30,193,657	39,042,127		29.3%
General Fund Exempt	101,662,237	237,728,903	237,728,903	237,728,903		0.0%
Cash Funds	0	0	0	0		0.0%
Reappropriated Funds	0	0	0	0		0.0%
Federal Funds	0	0	0	0		0.0%

	FY 2011-12 Actual	FY 2012-13 Actual	FY 2013-14 Appropriation	FY 2014-15 Request	Request vs. Appropriation
(B) Fee-for-service Contracts with State Institutions					
Fee-for-service Contracts with State Institutions	238,095,145	245,866,000	257,021,479	306,624,804 *	
General Fund	23,690,715	31,461,570	67,350,382	116,953,707	
General Fund Exempt	214,404,430	214,404,430	189,671,097	189,671,097	
SUBTOTAL - (B) Fee-for-service Contracts with State Institutions	238,095,145	245,866,000	257,021,479	306,624,804	19.3%
FTE	0.0	0.0	0.0	0.0	0.0%
General Fund	23,690,715	31,461,570	67,350,382	116,953,707	73.6%
General Fund Exempt	214,404,430	214,404,430	189,671,097	189,671,097	0.0%
TOTAL - (4) College Opportunity Fund Program	500,746,778	502,241,913	524,944,039	583,395,834	11.1%
FTE	0.0	0.0	0.0	0.0	0.0%
General Fund	184,680,111	50,108,580	97,544,039	155,995,834	59.9%
General Fund Exempt	316,066,667	452,133,333	427,400,000	427,400,000	0.0%
Cash Funds	0	0	0	0	0.0%
Reappropriated Funds	0	0	0	0	0.0%
Federal Funds	0	0	0	0	0.0%

	FY 2011-12 Actual	FY 2012-13 Actual	FY 2013-14 Appropriation	FY 2014-15 Request		Request vs. Appropriation

(5) GOVERNING BOARDS

Primary Functions: Provides spending authority for revenue earned by higher education institutions from student stipend payments, fee-for-service contracts, tuition, academic program and academic facility fees, and miscellaneous other sources.

(A) Trustees of Adams State College

	FY 2011-12 Actual	FY 2012-13 Actual	FY 2013-14 Appropriation	FY 2014-15 Request		Request vs. Appropriation
Trustees of Adams State College	29,938,930	28,817,994	34,832,929	36,109,016	*	
FTE	294.7	314.6	327.0	327.0		
General Fund	0	0	0	0		
Cash Funds	18,748,515	17,770,139	23,271,728	23,271,728		
Reappropriated Funds	11,190,415	11,047,855	11,561,201	12,837,288		
Federal Funds	0	0	0	0		
SUBTOTAL - (A) Trustees of Adams State College	29,938,930	28,817,994	34,832,929	36,109,016		3.7%
FTE	294.7	314.6	327.0	327.0		0.0%
General Fund	0	0	0	0		0.0%
Cash Funds	18,748,515	17,770,139	23,271,728	23,271,728		0.0%
Reappropriated Funds	11,190,415	11,047,855	11,561,201	12,837,288		11.0%
Federal Funds	0	0	0	0		0.0%

(B) Trustees of Colorado Mesa University

	FY 2011-12 Actual	FY 2012-13 Actual	FY 2013-14 Appropriation	FY 2014-15 Request		Request vs. Appropriation
Trustees of Colorado Mesa University	65,625,128	70,398,781	79,114,177	81,307,617	*	
FTE	534.5	591.6	623.6	623.6		
Cash Funds	47,124,553	51,506,463	59,280,366	59,280,366		
Reappropriated Funds	18,500,575	18,892,318	19,833,811	22,027,251		

	FY 2011-12 Actual	FY 2012-13 Actual	FY 2013-14 Appropriation	FY 2014-15 Request		Request vs. Appropriation
SUBTOTAL - (B) Trustees of Colorado Mesa University	65,625,128	70,398,781	79,114,177	81,307,617		2.8%
FTE	534.5	591.6	623.6	623.6		0.0%
Cash Funds	47,124,553	51,506,463	59,280,366	59,280,366		0.0%
Reappropriated Funds	18,500,575	18,892,318	19,833,811	22,027,251		11.1%
(C) Trustees of Metropolitan State College of Denver						
Trustees of Metropolitan State College of Denver	131,304,673	130,345,566	150,719,353	155,170,533	*	
FTE	1,299.0	1,258.3	1,350.7	1,350.7		
Cash Funds	94,343,194	92,876,373	111,489,340	111,489,340		
Reappropriated Funds	36,961,479	37,469,193	39,230,013	43,681,193		
SUBTOTAL - (C) Trustees of Metropolitan State College of Denver	131,304,673	130,345,566	150,719,353	155,170,533		3.0%
FTE	1,299.0	1,258.3	1,350.7	1,350.7		0.0%
Cash Funds	94,343,194	92,876,373	111,489,340	111,489,340		0.0%
Reappropriated Funds	36,961,479	37,469,193	39,230,013	43,681,193		11.3%
(D) Trustees of Western State College						
Trustees of Western State College	20,991,913	22,790,855	25,349,418	26,401,956	*	
FTE	231.9	237.5	237.7	237.7		
Cash Funds	11,647,666	13,565,630	15,816,509	15,816,509		
Reappropriated Funds	9,344,247	9,225,225	9,532,909	10,585,447		
SUBTOTAL - (D) Trustees of Western State College	20,991,913	22,790,855	25,349,418	26,401,956		4.2%
FTE	231.9	237.5	237.7	237.7		0.0%
Cash Funds	11,647,666	13,565,630	15,816,509	15,816,509		0.0%
Reappropriated Funds	9,344,247	9,225,225	9,532,909	10,585,447		11.0%

	FY 2011-12 Actual	FY 2012-13 Actual	FY 2013-14 Appropriation	FY 2014-15 Request	Request vs. Appropriation
(E) Board of Governors of the Colorado State University System					
Board of Governors of the Colorado State University System	411,193,879	458,818,240	464,385,834	476,516,935 *	
FTE	4,037.8	4,488.6	4,204.6	4,204.6	
Cash Funds	304,547,346	353,627,763	354,368,452	354,368,452	
Reappropriated Funds	106,646,533	105,190,477	110,017,382	122,148,483	
SUBTOTAL - (E) Board of Governors of the Colorado State University System	411,193,879	458,818,240	464,385,834	476,516,935	2.6%
FTE	4,037.8	4,488.6	4,204.6	4,204.6	0.0%
Cash Funds	304,547,346	353,627,763	354,368,452	354,368,452	0.0%
Reappropriated Funds	106,646,533	105,190,477	110,017,382	122,148,483	11.0%
(F) Trustees of Fort Lewis College					
Trustees of Fort Lewis College	43,113,153	46,142,649	48,545,268	49,599,552 *	
FTE	417.8	365.8	401.9	401.9	
Cash Funds	33,742,036	36,956,409	38,956,948	38,956,948	
Reappropriated Funds	9,371,117	9,186,240	9,588,320	10,642,604	
SUBTOTAL - (F) Trustees of Fort Lewis College	43,113,153	46,142,649	48,545,268	49,599,552	2.2%
FTE	417.8	365.8	401.9	401.9	0.0%
Cash Funds	33,742,036	36,956,409	38,956,948	38,956,948	0.0%
Reappropriated Funds	9,371,117	9,186,240	9,588,320	10,642,604	11.0%

	FY 2011-12 Actual	FY 2012-13 Actual	FY 2013-14 Appropriation	FY 2014-15 Request	Request vs. Appropriation
(G) Regents of the University of Colorado					
Regents of the University of Colorado	895,971,250	925,546,083	997,555,222	1,014,147,393 *	
FTE	6,797.7	7,288.0	6,998.0	6,998.0	
Cash Funds	749,537,987	781,704,042	846,642,052	846,642,052	
Reappropriated Funds	146,433,263	143,842,041	150,913,170	167,505,341	
SUBTOTAL - (G) Regents of the University of Colorado	895,971,250	925,546,083	997,555,222	1,014,147,393	1.7%
FTE	6,797.7	7,288.0	6,998.0	6,998.0	0.0%
Cash Funds	749,537,987	781,704,042	846,642,052	846,642,052	0.0%
Reappropriated Funds	146,433,263	143,842,041	150,913,170	167,505,341	11.0%
(H) Trustees of the Colorado School of Mines					
Trustees of the Colorado School of Mines	109,394,186	118,244,824	124,691,466	126,547,375 *	
FTE	766.6	825.6	815.3	815.3	
General Fund	0	0	0	0	
Cash Funds	93,139,944	102,160,692	107,877,919	107,877,919	
Reappropriated Funds	16,254,242	16,084,132	16,813,547	18,669,456	
SUBTOTAL - (H) Trustees of the Colorado School of Mines	109,394,186	118,244,824	124,691,466	126,547,375	1.5%
FTE	766.6	825.6	815.3	815.3	0.0%
General Fund	0	0	0	0	0.0%
Cash Funds	93,139,944	102,160,692	107,877,919	107,877,919	0.0%
Reappropriated Funds	16,254,242	16,084,132	16,813,547	18,669,456	11.0%

	FY 2011-12 Actual	FY 2012-13 Actual	FY 2013-14 Appropriation	FY 2014-15 Request	Request vs. Appropriation
(I) University of Northern Colorado					
University of Northern Colorado	114,107,716	117,185,843	123,722,774	127,439,741 *	
FTE	1,003.1	1,208.6	1,049.9	1,049.9	
Cash Funds	81,301,110	84,871,013	90,082,714	90,082,714	
Reappropriated Funds	32,806,606	32,314,830	33,640,060	37,357,027	
SUBTOTAL - (I) University of Northern Colorado	114,107,716	117,185,843	123,722,774	127,439,741	3.0%
FTE	1,003.1	1,208.6	1,049.9	1,049.9	0.0%
Cash Funds	81,301,110	84,871,013	90,082,714	90,082,714	0.0%
Reappropriated Funds	32,806,606	32,314,830	33,640,060	37,357,027	11.0%
(J) State Board for Community Colleges and Occupational Education State System Community Colleges					
State Board for Community Colleges and Occupational Education State System Community Colleges	379,418,681	389,892,743	417,319,563	431,396,171 *	
FTE	5,736.6	6,066.8	6,444.5	6,456.0	
Cash Funds	265,085,753	272,172,449	292,430,246	292,430,246	
Reappropriated Funds	114,332,928	117,720,294	124,889,317	138,965,925	
SUBTOTAL - (J) State Board for Community Colleges and Occupational Education State System Community Colleges	379,418,681	389,892,743	417,319,563	431,396,171	3.4%
FTE	5,736.6	6,066.8	6,444.5	6,456.0	0.2%
Cash Funds	265,085,753	272,172,449	292,430,246	292,430,246	0.0%
Reappropriated Funds	114,332,928	117,720,294	124,889,317	138,965,925	11.3%

	FY 2011-12 Actual	FY 2012-13 Actual	FY 2013-14 Appropriation	FY 2014-15 Request	Request vs. Appropriation
TOTAL - (5) Governing Boards	2,201,059,509	2,308,183,578	2,466,236,004	2,524,636,289	2.4%
FTE	21,119.7	22,645.4	22,453.2	22,464.7	0.1%
General Fund	0	0	0	0	0.0%
Cash Funds	1,699,218,104	1,807,210,973	1,940,216,274	1,940,216,274	0.0%
Reappropriated Funds	501,841,405	500,972,605	526,019,730	584,420,015	11.1%
Federal Funds	0	0	0	0	0.0%

	FY 2011-12 Actual	FY 2012-13 Actual	FY 2013-14 Appropriation	FY 2014-15 Request	Request vs. Appropriation

(6) LOCAL DISTRICT JUNIOR COLLEGE GRANTS PURSUANT TO SECTION 23-71-301, C.R.S.

Primary Functions: Subsidizes the operations of the state's two local district junior colleges: Aims Community College and Colorado Mountain College. Institutions that are set up as local district junior colleges have special property tax districts that also support their operations and governing boards that are independent from the rest of the community college system. Students from the special property tax districts pay discounted tuition rates.

	FY 2011-12 Actual	FY 2012-13 Actual	FY 2013-14 Appropriation	FY 2014-15 Request	Request vs. Appropriation
Local District Junior College Grants	12,506,424	12,742,980	13,262,550	14,656,816 *	
General Fund	11,909,951	12,093,711	12,650,325	14,044,591	
Cash Funds	596,473	649,269	612,225	612,225	
Reappropriated Funds	0	0	0	0	
Federal Funds	0	0	0	0	
TOTAL - (6) Local District Junior College Grants Pursuant to Section 23-71-301, C.R.S.	12,506,424	12,742,980	13,262,550	14,656,816	10.5%
FTE	0.0	0.0	0.0	0.0	0.0%
General Fund	11,909,951	12,093,711	12,650,325	14,044,591	11.0%
Cash Funds	596,473	649,269	612,225	612,225	0.0%
Reappropriated Funds	0	0	0	0	0.0%
Federal Funds	0	0	0	0	0.0%

	FY 2011-12 Actual	FY 2012-13 Actual	FY 2013-14 Appropriation	FY 2014-15 Request	Request vs. Appropriation
(7) DIVISION OF OCCUPATIONAL EDUCATION					
Primary Functions: Administers and supervises vocational programs and distributes state and federal funds for this purpose. Also, coordinates resources for job development, job training, and job retraining. The reappropriated funds represent transfers from the Office of Economic Development and from the Department of Education for the Colorado Vocational Act.					
(A) Administrative Costs					
Administrative Costs	900,000	900,000	900,000	900,000	
FTE	8.3	8.6	9.0	9.0	
General Fund	0	0	316,298	316,298	
Cash Funds	0	0	0	0	
Reappropriated Funds	900,000	900,000	583,702	583,702	
SUBTOTAL - (A) Administrative Costs	900,000	900,000	900,000	900,000	0.0%
FTE	8.3	8.6	9.0	9.0	0.0%
General Fund	0	0	316,298	316,298	0.0%
Cash Funds	0	0	0	0	0.0%
Reappropriated Funds	900,000	900,000	583,702	583,702	0.0%
(B) Distribution of State Assistance for Career and Technical Education pursuant to Section 23-8-102, C.R.S.					
Distributions of State Assistance for Career and Technical Education	22,764,221	24,218,052	24,528,304	24,948,012 *	
Reappropriated Funds	22,764,221	24,218,052	24,528,304	24,948,012	
SUBTOTAL - (B) Distribution of State Assistance for Career and Technical Education pursuant to Section 23-8-102, C.R.S.	22,764,221	24,218,052	24,528,304	24,948,012	1.7%
FTE	0.0	0.0	0.0	0.0	0.0%
Reappropriated Funds	22,764,221	24,218,052	24,528,304	24,948,012	1.7%

	FY 2011-12 Actual	FY 2012-13 Actual	FY 2013-14 Appropriation	FY 2014-15 Request	Request vs. Appropriation
(C) Area Vocational School Support					
Area Vocational School Support	7,664,871	7,765,822	8,091,845	8,983,694 *	
General Fund	7,664,871	7,765,822	8,091,845	8,983,694	
SUBTOTAL - (C) Area Vocational School Support	7,664,871	7,765,822	8,091,845	8,983,694	11.0%
FTE	0.0	0.0	0.0	0.0	0.0%
General Fund	7,664,871	7,765,822	8,091,845	8,983,694	11.0%
(D) Sponsored Programs					
Administration	2,220,227	2,192,979	2,220,227	2,220,227	
FTE	22.2	22.6	23.0	23.0	
Federal Funds	2,220,227	2,192,979	2,220,227	2,220,227	
Programs	14,737,535	13,353,751	14,737,535	14,737,535	
Federal Funds	14,737,535	13,353,751	14,737,535	14,737,535	
SUBTOTAL - (D) Sponsored Programs	16,957,762	15,546,730	16,957,762	16,957,762	0.0%
FTE	22.2	22.6	23.0	23.0	0.0%
Federal Funds	16,957,762	15,546,730	16,957,762	16,957,762	0.0%
(E) Colorado First Customized Job Training					
Colorado First Customized Job Training	2,725,022	2,725,022	4,225,022	4,225,022	
Reappropriated Funds	2,725,022	2,725,022	4,225,022	4,225,022	
SUBTOTAL - (E) Colorado First Customized Job Training	2,725,022	2,725,022	4,225,022	4,225,022	0.0%
FTE	0.0	0.0	0.0	0.0	0.0%
Reappropriated Funds	2,725,022	2,725,022	4,225,022	4,225,022	0.0%

	FY 2011-12 Actual	FY 2012-13 Actual	FY 2013-14 Appropriation	FY 2014-15 Request	Request vs. Appropriation
TOTAL - (7) Division of Occupational Education	51,011,876	51,155,626	54,702,933	56,014,490	2.4%
FTE	30.5	31.2	32.0	32.0	0.0%
General Fund	7,664,871	7,765,822	8,408,143	9,299,992	10.6%
Cash Funds	0	0	0	0	0.0%
Reappropriated Funds	26,389,243	27,843,074	29,337,028	29,756,736	1.4%
Federal Funds	16,957,762	15,546,730	16,957,762	16,957,762	0.0%

	FY 2011-12 Actual	FY 2012-13 Actual	FY 2013-14 Appropriation	FY 2014-15 Request	Request vs. Appropriation

(8) AURARIA HIGHER EDUCATION CENTER

Primary Functions: Established by statute in 1974, the Auraria Higher Education Center (AHEC) is governed by a Board of Directors who oversee the centralized operations of the campus located in Denver. AHEC houses and provides common services to the Community College of Denver, Metropolitan State College of Denver, and the University of Colorado at Denver and Health Sciences Center.

	FY 2011-12 Actual	FY 2012-13 Actual	FY 2013-14 Appropriation	FY 2014-15 Request	Request vs. Appropriation
Administration	17,670,252	16,904,618	17,670,252	17,670,252	
FTE	172.9	177.8	172.9	172.9	
General Fund	0	0	0	0	
Cash Funds	0	0	0	0	
Reappropriated Funds	17,670,252	16,904,618	17,670,252	17,670,252	
Federal Funds	0	0	0	0	
TOTAL - (8) Auraria Higher Education Center	17,670,252	16,904,618	17,670,252	17,670,252	0.0%
FTE	172.9	177.8	172.9	172.9	0.0%
General Fund	0	0	0	0	0.0%
Cash Funds	0	0	0	0	0.0%
Reappropriated Funds	17,670,252	16,904,618	17,670,252	17,670,252	0.0%
Federal Funds	0	0	0	0	0.0%

	FY 2011-12 Actual	FY 2012-13 Actual	FY 2013-14 Appropriation	FY 2014-15 Request	Request vs. Appropriation

(9) STATE HISTORICAL SOCIETY

Primary Functions: Collect, preserve, exhibit, and interpret artifacts and properties of historical significance to the State. Distribute gaming revenues earmarked for historic preservation. The cash funds come from gaming revenues deposited in the State Historic Fund, museum revenues, gifts, and grants.

(A) Cumbres and Toltec Railroad Commission

	FY 2011-12 Actual	FY 2012-13 Actual	FY 2013-14 Appropriation	FY 2014-15 Request	Request vs. Appropriation
Cumbres and Toltec Railroad Commission	202,500	1,870,500	2,145,000	2,180,000	
General Fund	202,500	1,020,500	1,295,000	1,295,000	
Cash Funds	0	850,000	850,000	885,000	
Reappropriated Funds	0	0	0	0	
SUBTOTAL - (A) Cumbres and Toltec Railroad Commission	202,500	1,870,500	2,145,000	2,180,000	1.6%
FTE	0.0	0.0	0.0	0.0	0.0%
General Fund	202,500	1,020,500	1,295,000	1,295,000	0.0%
Cash Funds	0	850,000	850,000	885,000	4.1%
Reappropriated Funds	0	0	0	0	0.0%

(B) Sponsored Programs

	FY 2011-12 Actual	FY 2012-13 Actual	FY 2013-14 Appropriation	FY 2014-15 Request	Request vs. Appropriation
Sponsored Programs	62,451	157,632	250,000	251,906	
FTE	1.2	1.6	3.5	3.5	
Cash Funds	20,000	0	20,000	20,000	
Federal Funds	42,451	157,632	230,000	231,906	
SUBTOTAL - (B) Sponsored Programs	62,451	157,632	250,000	251,906	0.8%
FTE	1.2	1.6	3.5	3.5	0.0%
Cash Funds	20,000	0	20,000	20,000	0.0%
Federal Funds	42,451	157,632	230,000	231,906	0.8%

	FY 2011-12 Actual	FY 2012-13 Actual	FY 2013-14 Appropriation	FY 2014-15 Request		Request vs. Appropriation
(C) Auxiliary Programs						
Auxiliary Programs	1,119,502	1,685,910	1,757,535	1,926,723	*	
FTE	11.8	14.0	14.5	14.5		
Cash Funds	1,119,502	1,685,910	1,757,535	1,926,723		
SUBTOTAL - (C) Auxiliary Programs	1,119,502	1,685,910	1,757,535	1,926,723		9.6%
FTE	11.8	14.0	14.5	14.5		0.0%
Cash Funds	1,119,502	1,685,910	1,757,535	1,926,723		9.6%
(D) Gaming Revenue						
Gaming Cities Distribution	4,839,002	4,625,470	4,804,000	4,804,000		
Cash Funds	4,839,002	4,625,470	4,804,000	4,804,000		
Statewide Preservation Grant Program	15,597,326	12,196,760	14,758,933	14,786,302		
FTE	17.3	16.7	18.0	18.0		
Cash Funds	15,597,326	12,196,760	14,758,933	14,777,237		
Federal Funds	0	0	0	9,065		
Society Museum and Preservation Operations	6,826,049	8,336,577	8,336,577	8,947,815	*	
FTE	89.9	93.7	95.4	95.4		
Cash Funds	6,186,346	7,496,436	7,639,481	8,237,291		
Federal Funds	639,703	840,141	697,096	710,524		
SUBTOTAL - (D) Gaming Revenue	27,262,377	25,158,807	27,899,510	28,538,117		2.3%
FTE	107.2	110.4	113.4	113.4		0.0%
Cash Funds	26,622,674	24,318,666	27,202,414	27,818,528		2.3%
Federal Funds	639,703	840,141	697,096	719,589		3.2%

	FY 2011-12 Actual	FY 2012-13 Actual	FY 2013-14 Appropriation	FY 2014-15 Request	Request vs. Appropriation
TOTAL - (9) State Historical Society	28,646,830	28,872,849	32,052,045	32,896,746	2.6%
FTE	120.2	126.0	131.4	131.4	0.0%
General Fund	202,500	1,020,500	1,295,000	1,295,000	0.0%
Cash Funds	27,762,176	26,854,576	29,829,949	30,650,251	2.7%
Reappropriated Funds	0	0	0	0	0.0%
Federal Funds	682,154	997,773	927,096	951,495	2.6%
TOTAL - Department of Higher Education	2,924,461,774	3,035,694,598	3,233,189,910	3,395,569,342	5.0%
FTE	21,479.4	23,019.2	22,842.3	22,853.8	0.1%
General Fund	307,563,786	176,102,713	231,662,854	333,489,619	44.0%
General Fund Exempt	316,066,667	452,133,333	427,400,000	427,400,000	0.0%
Cash Funds	1,731,968,520	1,839,799,218	1,978,139,263	1,979,283,382	0.1%
Reappropriated Funds	549,800,599	549,025,744	576,697,493	635,694,785	10.2%
Federal Funds	19,062,202	18,633,590	19,290,300	19,701,556	2.1%

Appendix B: Recent Legislation Affecting Department Budget

2012 Session Bills

H.B. 12-1155: Specifies the minimum indicators of a student's academic performance that institutions of higher education use to determine the eligibility of first-time freshman and transfer students. Modifies the policies that the Colorado Commission on Higher Education (CCHE) establishes by which state institutions of higher education offer remedial education and ensures that the policies align with admissions policies. Requires the Department of Higher Education to share the annual enrollment report with the Department of Education, in addition to other education policy makers. Clarifies the CCHE's authority in defining an institution's role and mission. Modifies and clarifies the way in which the State regulates private institutions of higher education (private colleges), including for-profit proprietary schools, non-profit schools, career and technical colleges, and seminaries and religious training institutions. Appropriates $75,500 cash funds (from fees paid by private colleges and universities) to the Department of Higher Education.

H.B. 12-1283: Consolidates Colorado's homeland security functions, personnel, and resources, enacted under Executive Order D 2011-030, into a new Division of Homeland Security and Emergency Management within the Department of Public Safety. Transfers $310,045 and 35.4 FTE from the Colorado State University state forest service to the Division of Fire Safety in the Department of Public Safety.

2013 Session Bills

S.B. 13-033: Establishes that any student who has attended high school in Colorado for at least three years immediately preceding graduation or obtained a general education equivalent degree and does not have lawful immigration status but who meets certain other requirements shall be classified as an in-state student for state higher education tuition purposes and shall be eligible for a College Opportunity Fund stipend.

H.B. 13-1004: Requires the Department of Human Services to administer a transitional jobs program which provides temporary subsidies to employers for individuals participating in the program. Provides appropriations to several departments for FY 2013-14, including $1,500,000 reappropriated funds to the Department of Higher Education for the Colorado First Customized Job Training Program. These funds are reappropriated from the Governor-Lieutenant Governor-State Planning and Budgeting, where they originate as General Fund. For additional information, see the recent legislation section for the Department of Human Services.

H.B. 13-1005: Authorizes the State Board for Community Colleges and Occupational Education (SBCCOE) to design new accelerated certificate programs to allow certain unemployed or underemployed adults to obtain a career and technical education certificate in 12 months or less.

H.B. 13-1165: Requires that the State Board for Community Colleges and Occupational Education (SBCCOE) collaborate with the Department of Higher Education, the Colorado Department of Education, and the Colorado Department of Labor and Employment, to design a career pathway for students seeking employment in the manufacturing sector. The career pathway must be available for students beginning with the 2014-15 academic year. Includes an FY 2013-14 appropriation to the Department of Higher Education of $559,165 General Fund, including $84,565 for financial aid need based grants and $474,600 for a College Opportunity Fund Program (COF) fee-for-service contract. The COF amount and 1.5 FTE are reappropriated to the SBCCOES. The appropriation is projected to annualize to $696,000 General Fund and 13.0 FTE in FY 2014-15.

H.B. 13-1194: Enables a dependent of a member of the armed forces to obtain in-state tuition notwithstanding his or her length of residency in Colorado, with certain limitations. Includes an FY 2013-14 appropriation to the Department of Higher Education of $22,621 General Fund, including $3,421 for financial aid need based grants and $19,200 for a College Opportunity Fund Program (COF) stipends. The $19,200 is further reappropriated to five governing boards, based on the overall statewide distribution of resident students eligible for COF stipends.

H.B. 13-1230: Creates a state compensation program for persons who are found actually innocent of felony crimes after serving time in jail, prison, or juvenile placement. Provides appropriations to several departments for FY 2013-14, including $1,920 General Fund to the Department of Higher Education for College Opportunity Fund Program stipends. This amount is further reappropriated to the State Board for community Colleges and Occupational Education State System Colleges.

H.B. 13-1320: Modifies requirements pertaining to the ratio of resident students to non-resident students in state higher education institutions, effectively allowing institutions to increase the proportion of their students who are not Colorado residents. Accomplishes this by allowing the institutions to double-count, in the relevant ratios, up to eight percent of students as "Colorado Scholars". A Colorado Scholar must have, at a minimum, graduated in the top 10 percent of his or her high school class or with a 3.75 GPA. An institution must provide a Colorado Scholar at least $2,500 in annual financial aid through the institution's Colorado Scholar program.

Appendix C: Update on Long Bill Footnotes & Requests for Information

Long Bill Footnotes

14 **Department of Higher Education, Colorado Commission on Higher Education Financial Aid, Work Study --** It is the intent of the General Assembly to allow the Colorado Commission on Higher Education to roll forward two percent of the Work Study appropriation to the next fiscal year.

Comment: Expresses legislative intent with regard to rolling forward work study funds. The footnote provides flexibility for the Department to roll forward work study funds because employment by some students in the summer of the academic year may occur in the next state fiscal year. Department budget schedules indicate that $333,743 (2.03 percent) was rolled forward from FY 2012-13 to FY 2013-14.

15 **Department of Higher Education, Colorado Commission on Higher Education Financial Aid, Special Purpose, National Guard Tuition Assistance Fund --** It is the intent of the General Assembly that only the minimum funds necessary to pay tuition assistance for qualifying applicants pursuant to Section 23-5-111.4, C.R.S. will be transferred to the National Guard Tuition Fund administered by the Department of Military Affairs. Any funds appropriated in this line item that are in excess of the minimum necessary to pay tuition assistance for qualifying applicants may be used for need-based financial aid.

Comment: Expresses legislative intent with regard to National Guard Tuition Assistance. This footnote expresses legislative intent that the Department not automatically transfer the full appropriation to the Department of Military Affairs, but rather that the Department transfer only the funds necessary to comply with Section 23-5-111.4, C.R.S. The footnote also provides flexibility for the Department to transfer unused funds to other need based financial aid programs. However, this flexibility does not appear to have been used in FY 2011-12 or FY 2012-13.

16 **Department of Higher Education, Governing Boards, Trustees of Adams State University; Trustees of Mesa State University; Trustees of Metropolitan State University of Denver; Trustees of Western State Colorado University; Board of Governors of the Colorado State University System; Trustees of Fort Lewis College; Regents of the University of Colorado; Trustees of the Colorado School of Mines; University of Northern Colorado; State Board for Community Colleges and Occupational Education State System Community Colleges; and Auraria Higher Education Center --** The FTE reflected in these line items are shown for informational purposes and are not intended to be a limitation on the budgetary flexibility allowed by Section 23-1-104 (1) (a) (I), C.R.S.

Comment: Expresses legislative intent with regard to FTE.

17 **Department of Higher Education, Governing Boards, Trustees of Adams State University; Trustees of Mesa State University; Trustees of Metropolitan State University of Denver; Trustees of Western State Colorado University; Board of Governors of the Colorado State University System; Trustees of Fort Lewis College; Regents of the University of Colorado; Trustees of the Colorado School of Mines; University of Northern Colorado; State Board for Community Colleges and Occupational Education State System Community Colleges --** The cash funds appropriations from tuition and academic and academic facility fees are for informational purposes only. Within the parameters of Section 23-5-130.5, C.R.S., higher education governing boards may set the tuition rates for the institutions they govern. The appropriation reflects the projected tuition if institutions increase Colorado resident tuition rates 9.0 percent and nonresident rates 5.0 percent.

Comment: Expresses legislative intent, consistent with current statute.

18 **Department of Higher Education, Local District Junior College Grants Pursuant to Section 23-71-301, C.R.S. --** It is the intent of the General Assembly in making this appropriation that local district tax revenue supplement, rather than supplant, the amount of General Fund provided, and thus annual General Fund adjustments should be equitable with General Fund adjustments for the state-operated governing boards.

Comment: Expresses legislative intent with regard to General Fund appropriations for the Local District Junior Colleges. Both the Governor and CCHE request an increase in funding for the Local District Junior Colleges using the same methodology applied to the increases for the governing boards.

19 **Department of Higher Education, History Colorado, Cumbres and Toltec Railroad Commission** -- The amount in this line item is calculated based on the following assumptions: (1) This line item includes $202,500 for annual Commission operating expenses and other routine ongoing costs including controlled maintenance; (2) the balance of this appropriation is for capital projects including locomotive boiler repair, passenger car upgrades, and track, bridge and tunnel upgrades; and (3) amounts above the $202,500 ongoing operating support are based on an analysis of the Railroad's capital outlay needs over a three year period and are not assumed to continue after FY 2015 16. Amounts in this line item that are not expended by June 30, 2014 may be rolled forward for expenditure in FY 2014-15.

Comment: Expresses legislative intent related to the FY 2013-14 appropriation.

Requests for Information

1. Department of Higher Education, Colorado Commission on Higher Education, Administration -- The Department should continue its efforts to provide data on the efficiency and effectiveness of state financial aid in expanding access to higher education for Colorado residents. The Department is requested to provide to the Joint Budget Committee by January 1 of each year an evaluation of financial aid programs, which should include, but not be limited to: 1) an estimate of the amount of federal, institutional, and private resources (including tax credits) devoted to financial aid; 2) the number of recipients from all sources; 3) information on typical awards; and 4) the typical debt loads of graduates. To the extent possible, the Department should differentiate the data based on available information about the demographic characteristics of the recipients. To the extent that this information is not currently available, the Department is requested to provide a reasonable estimate, or identify the additional costs that would be associated with collecting the data.

    Comment: The Department submitted its most recent report on December 6, 2012 (another report will be received soon). The report is available on the Department's website at

    http://highered.colorado.gov/Publications/Reports/FinancialAid/FY2012/201112_FAReport_rel120612.pdf. Some key findings of the last report included:

    - In FY 2011-12, the number of students receiving financial aid in Colorado increased by 2.5% to 230,165, including part-time students.
    - Half of all students who received financial assistance in FY 2011-12 received a Pell grant.
    - Federal aid accounted for 40 percent of all grant aid in FY 2011-12, with 22 percent of students receiving the maximum of $5,550.
    - State funded financial aid comprised slightly more than 10 percent of all grant aid.
    - Institutional aid accounted for 43 percent of all grant aid and 20 percent of all aid.
    - The average student loan debt for baccalaureate graduates was $24,850 in FY 2011-12. Colorado's average was slightly below the national average.

Appendix D: Indirect Cost Assessment Methodology

Description of Indirect Cost Assessment Methodology

There are two major components of the Department's indirect cost methodology:
- A component for allocating departmental indirect costs; and
- A component for allocating statewide indirect costs, which are significant for this department.

Departmental Indirect Cost Methodology

The Department of Higher Education's indirect cost assessment methodology is calculated based on two components: an "*Indirect Cost Pool*", and an "*Indirect Cost Base.*"

The *Departmental Indirect Cost Pool* is comprised of the FY 2012-13 appropriated amounts for the administrative functions of the Colorado Commission on Higher Education, and its share of central POTS costs. ***Table 1*** outlines which lines are included in the *Department's* Indirect Cost Pool.

Table 1
Department of Higher Education Indirect Cost Pool

Division	Line Item	FY 2012-13 Approp.
Department Administrative Office		
	Heath, Life, and Dental	$197,183
	Short-term Disability	2,507
	AED	60,046
	SAED	51,602
	Workers' Compensation	6,916
	Legal Services	25,058
	GGCC Services	15,209
	COFRS Modernization	16,847
	Risk Management	1,257
	Leased Space	411,368
Colorado Commission on Higher Education		
	Administration	2,102,817
Adjustments (reversions, supplemental adjustments)		-25,736
Total Indirect Cost Pool		**$2,864,074**
Reduce for nonpublic schools		-68,017
Subtotal		2,795,051
Cash and Reappropriated Share of Total (79.29%)		**$2,216,157**

The *Indirect Cost Base* is comprised of the FY 2012-13 appropriations shown in Table 1. The costs are allocated to the programs, divisions, and Governing Boards using a multi-tiered allocation methodology.

In the first step of the allocation methodology, costs of services to non-public schools are allocated ($68,023 in FY 2012-13). The balance of the indirect cost pool is allocated proportionately to each funding source. Next, the costs allocated to the cash and reappropriated funding sources (79.29 percent of the FY 2012-13 total), are further allocated to the divisions, programs, and governing boards (in aggregate) based on FY 2012-13 appropriations. Finally the aggregate governing board costs are then allocated to each individual governing board based on student FTE, using a three-year rolling average.

Table 2 illustrates the final allocations assessed to each program and governing board.

Table 2 Department of Higher Education Departmental Indirect Cost Assessments	
University of CO	$584,044
CSU System	$326,807
Ft. Lewis	$43,724
Adams State	$26,921
Colorado Mesa	$75,686
Western State	$22,240
Metro State	$210,698
Community Colleges	$720,083
U. of Northern CO	$120,244
School of Mines	$57,118
Auraria Higher Ed Ctr	$0
SUBTOTAL	$2,187,565
CCHE	$0
History Colorado	$27,723
Private Occupational Schools	$600
Vet. Medicine	$270
SUBTOTAL	$2,216,157
CollegeInvest	$0
CollegeAssist	$0
TOTAL	$2,216,157

Department Share of *Statewide* Indirect Cost Assessment Request

In addition to the *Departmental* indirect cost pool, the Department is responsible for an allocated share of the *statewide* indirect cost pool. For this department, the statewide pool and associated indirect cost collections from the governing boards are large. The statewide indirect cost amount for the Department is allocated to the governing boards based upon their usage of state services as calculated by the State Controller's Office. The statewide indirect cost collection amount, including the Colorado Commission on Higher Education's share of the statewide assessment for FY 2013-14 (which is then allocated to the governing boards) is shown below in **Table 3**.

Table 3 Department of Higher Education Statewide Indirect Cost Assessments	
University of CO	$511,178
CSU System	$306,310
Ft. Lewis	$52,832
Adams State	$43,008
Colorado Mesa	$31,141
Western State	$58,606
Metro State	$76,175
Community Colleges	$358,954
U. of Northern CO	$102,216
School of Mines	$86,379
Auraria Higher Ed Ctr	$101,574
SUBTOTAL	$1,728,373
CCHE (re-allocated to gov. boards)	$68,906
History Colorado	$131,904
Private Occupational Schools	$3,665
Vet. Medicine	$0
SUBTOTAL	$1,932,848
CollegeInvest	$20,721
CollegeAssist	$60,491
TOTAL	$2,014,060

Appendix E: Change Requests' Relationship to Performance Measures

This appendix will show how the Department of Higher Education indicates each change request ranks in relation to the Department's top priorities and what performance measures the Department is using to measure success of the request. Note that pursuant to the SMART Act, as amended by H.B. 13-1299, Section 2-7-204 (3) (a) (II), C.R.S. states that the Department’s master plan, in conjunction with the institutions’ performance contracts (required pursuant to S.B. 11-052) satisfy the requirements of the SMART Act. Staff compares each of the request items to the goals outlined in the master plan and some of the common indicator performance measures to which institutions have agreed; however, because the measures differ for each institution, staff has not included all related measures. History Colorado is not covered by Section 2-7-204 (3) (a) (II), C.R.S. and compiled a separate performance plan.

Change Requests' Relationship to Measures

R	Change Request Description	Goals / Objectives	Measures
1	Increased financial aid for Colorado students	Does not directly tie to any one goal, but is arguably related to all of them: increasing attainment, improving student success, reducing gaps, and restoring fiscal balance.	Examples: Increase undergraduate credentials awarded; increase retention rates; reduce disparities in degree completion between resident underserved and non-underserved students.
2	Operational funding increase for public colleges and universities	Restore fiscal balance: Develop resources through increases in state funding that will allow public institutions of higher education to meet projected enrollment demands while promoting affordability accessibility and efficiency.	Example: Moderate resident undergraduate tuition increases when state General Fund revenues increase above inflation.
3	Fort Lewis College Native American Tuition Waiver	Does not tie to a specific goal, but is related, for *resident* Native American students, to reducing disparities. Reducing gaps: Enhance access to, and through, postsecondary education to ensure that the system reflects the changing demographics of the state while reducing attainment gaps among students from underserved communities.	Selected Fort Lewis measures: Annually reduce disparities in retention rates and degree completion (graduates per 100 FTE) between resident underserved and resident non-underserved students.
4	Additional funding for Dependent Tuition Assistance	Does not directly tie to Master Plan goals.	Does not relate to institutional performance measures.
HC-1	Increase the future stability of History Colorado	Build visitation and use of programs and services. Expand opportunities for earned revenue systemwide.	History Colorado Center and regional museum visitation, History Colorado Center and regional museum earned revenue, History Colorado memberships.