COLORADO
Department of
Higher Education

1560 Broadway, Suite 1600
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John Hickenlooper
Governor

Lieutenant Governor Joseph A. Garcia
Executive Director

MEMORANDUM

TO: Rep. Millie Hamner, Chair, Joint Budget Committee

FROM: Lt. Governor Joseph A. Garcia, Executive Director, Department of Higher Education

DATE: January 22, 2016

SUBJECT: Response to Letter dated January 12, 2016

Thank you for your letter dated January 12, 2016 seeking additional information on the higher education funding allocation formula and the Governor's proposed tuition policy.

Funding Allocation Model

The Colorado Commission on Higher Education (CCHE) and the Department of Higher Education (CDHE) also **would have preferred to achieve a consensus of the 10 governing boards**, and sought to accomplish that. However, unfortunately, despite the best efforts of all involved parties that proved to be impossible. That said, **the support of 8 out of 10 governing boards is significant**, especially given that they are facing a $20 million cut in the budget.

Extensive work – 11 representatives, 35 hours over 14 meetings with over 170 model scenarios tested – was undertaken by the Funding Allocation Model Review Team (FAMRT), which comprised ALL 10 governing boards and a representative from OSPB. **Eight governing boards agreed to move forward with Version 2.0**.

The resulting formula is the product of these meetings discussions, and concessions made by the individual team members along the way. The FAMRT achieved a **carefully developed compromise.** The formula **implements the provisions of HB 14-1319 while balancing the stated goals in the legislation** - to distribute funding among governing boards based on the metrics set forth and **ensure the educational quality and financial sustainability of all the state's institutions** of higher education.

Tuition Policy

As for the proposed tuition policy, current law has specifically charged the Colorado Commission on Higher Education (CCHE) with the role of establishing tuition policies:

- **SB 10-003; C.R.S. § 23-1-108(12)(b):** CCHE shall *"establish tuition policies based on institutional role and mission, and the governing boards shall set tuition consistent with said policies"* beginning in FY 2016-17.
- **C.R.S. § 23-5-129(6)(c):** *"While operating pursuant to a performance contract negotiated pursuant to this section, the governing board of a state institution of higher education"*...such institution *"shall report to the Colorado commission on higher education its plans for any tuition or other proposed increases for the following fiscal year, using approved forms, for the commission to review and make recommendations to the general assembly during the annual budget process."*

- **HB 14-1319; C.R.S. § 23-18-306(5):** *"Commission shall submit to the Joint Budget Committee and to the Education Committees"…"tuition policies that ensure both accessible and affordable higher education for Colorado residents."…"Must also reflect the level of state funding"…"the need of each institution to enhance the quality of education programs and offerings and strengthen the financial position of the institution."*

CCHE is not requesting additional statutory authority, nor is it intending to limit in any way the General Assembly's role. Rather, it seeks only to comply with existing statute. CCHE's tuition policy is largely a continuation of previous state tuition policy practices. However, the primary difference is that, absent legislative change or action by the General Assembly to codify the limit in some manner, any tuition increase limitation for the coming fiscal year is set by CCHE and not in statute. Any potential tuition increase limitation would be informed by the Cost Sharing Matrix, which utilizes minimum increased costs and state funding levels to calculate possible tuition increase limits. CCHE would grant full flexibility to the governing boards to set tuition based on their individual circumstances within guidelines of CCHE tuition policy. Beginning with the FY 2017-18 budget development process, the Cost Sharing Matrix will be developed jointly with the Governing Boards.

Over the past five years, the Commission has worked to **align the major elements of higher education financing policy** – appropriations, tuition, and financial aid — **in order to increase postsecondary attainment; promote college affordability; and ensure student access and success**. Too often, these issues have been dealt with individually rather than reflecting the interrelated nature of appropriations, tuition, and financial aid. Through the work of CCHE over the last few years, these three policies have been reviewed and updated to provide greater affordability to students, incent completion, while also providing operational stability and fiscal flexibility for our state's public postsecondary institutions. The work of the Commission, the Department and the governing boards represents a significant increase in accountability and transparency, as well as additional information and analysis of higher education costs.

For more details on CCHE's recommended tuition policy, including changes to process and statute, please see the attachment, "Tuition Policy Crosswalk".

ADDITIONAL INFORMATION

The following pages provide additional information on specific issues outlined in the Committee's letter.

Funding Allocation Model

The first version of the funding allocation formula was developed in only 7 months. It was clearly understood and agreed upon by the Department, governing boards, and CCHE that additional refinements would be needed following the initial implementation in FY 2015-16 to ensure the sustainability and predictability of the model going forward. The Joint Budget Committee (JBC) provided nine Requests for Information (RFI) related specifically to the funding allocation model and focused primarily on the complexity and lack of intuitiveness of Version 1.0 of the model. The issues raised in the RFIs were also conveyed by the JBC members to the Department in an update to the Committee on June 19, 2015.

The **overarching goals of the review process and subsequent changes** to the allocation formula were to **provide a consistent and predictable model** that implements the legislation and **provides incentives to institutions to meet the state's policy objectives** as outlined in the CCHE's Master Plan. After analysis and lengthy conversations and debates within the FAMRT, Department staff came to the conclusion that (1) a more direct approach to the Role & Mission portion of the model and (2) modifications to the Outcomes/Performance portion were required in order to create a simpler, less volatile model.

Weighted Credit Hours vs. Mission Differentiation

After Version 1.0 of the model was completed and implemented, **the Colorado Department of Higher Education (CDHE) was asked by the JBC and CCHE to analyze the stability of the model.** CDHE conducted analyses based on several different scenarios – 5 percent funding increase, flat funding, and 5 percent funding decrease - to understand how the funding allocation formula would behave in various budgetary conditions.

It became clear through this analysis the initial version of the model created too much volatility given the majority of the formula was based on enrollment-driven factors and metrics. CDHE was especially concerned about the volatility of the model when reviewing funding cut scenarios, as we walked the fine line of keeping all institutions viable while continuing to use an outcomes-based funding allocation model.

While the weighted credit hour option, based mainly on enrollment, has worked well in other states with an outcomes-based funding allocation model, Colorado's higher education funding structure is unique among the states in that it provides funding for enrollment through the **Colorado Opportunity Fund (COF)** stipend, **which is solely enrollment-driven** and is paid to the institutions on behalf of students. **H.B. 14-1319 changed statute to require the enrollment based COF stipend make up at least 52.5 percent** of the total operating funding for public postsecondary institutions.

If an institution's state funding is based heavily on enrollment, unnecessary volatility in the allocation occurs, thus placing fiscal pressure on the institutions.

In order to mitigate the fiscal pressure and underlying volatility, CDHE captures the role and mission of each governing board (i.e., size, location, selectivity, cost of programs) by eliminating the weighted student credit hours and the "tuition stability" metric and replacing these with "Mission Differentiation", which **captures the unique role and mission of each institution.** The Mission Differentiation metric is based on the outputs from the FY 2015-16 funding allocation model as well as institution type and size. In one metric, **Mission Differentiation is able to offset the costs in providing the programs outlined in statute.**

Other Role and Mission Components, Such as Number of Campuses

Both versions of the funding allocation formula are in compliance with statute. As previously stated, the Mission Differentiation metric offsets the costs for providing the programs outlined in H.B. 14-1319.

The Mission Differentiation metric is calculated on an institutional basis and rolled up to the governing board level. It is important to note that while the number of institutions for which a governing board is responsible is defined in statute, the number of campuses a governing board has is not. Further, there is no clear definition of a "campus" in statute. The size, program offerings, and enrollment levels of campuses vary tremendously by governing board and even within institutions. Using institution level data rather than campus level data mitigates the possibility of institutions gaming the system by creating additional campuses in hopes of receiving additional state funding.

Prior Year versus Current Year Enrollment Data

The Department does not and has not used current year enrollments for *meaningful* budgeting purposes.

Prior to the implementation of HB 14-1319, current year COF enrollments were reported, but no overall increase/decrease occurred to a governing board's total General Fund allocation. Under the prior allocation method, if current year COF Stipend enrollment increased from the forecasted amount, the amount for Fee for Service contracts decreased to offset that change. If COF stipend enrollment decreased from the forecast, then amount for Fee for Service contracts increased accordingly. There was no overall net change in a governing board's allocation based on enrollment. Under the requirements of HB 14-1319, enrollment changes are now captured and impact funding levels for the first time since the passage of COF in FY 2005-06.

The FY 2016-17 funding model uses FY 2014-2015 actual enrollments for the COF component of the formula for four primary reasons:

1) It was the **preference of the Joint Budget Committee staff** to use actual enrollments, rather than estimates of current year enrollment;
2) A **clear majority of the governing boards were in favor** of using actual 2014-2015 enrollments;
3) **All other data in the model utilizes FY 2014-15 actuals**; and
4) It is **impractical to utilize estimates** of current year enrollments in the funding model, because the funding formula must be finalized by November 1 of each year for the Governor's budget request and institutions do not submit Fall reconciled actual COF enrollments until January 29th of the following year.

As mentioned previously, the **Department engaged in an inclusive and collaborative process** to discuss the development and implementation of any needed modifications. **Extensive work – 35 hours over 14 meetings and over 170 model scenarios tested** – was undertaken by the Funding Allocation Model Review Team (FAMRT), which comprised of representatives from ALL 10 governing boards and one from OSPB. **Eight governing boards agreed to move forward with Version 2.0**.

Emphasis on Low-Income/Pell Students

Each institution has incentives to argue for different weights/values for any of the metrics in the model, as each metric provides varied benefits to each institution. The model approved by the FAMRT and CCHE represents the best efforts to implement a simple, sustainable and intuitive formula while also providing incentives to institutions to meet State policy objectives as outlined in the CCHE's Master Plan.

Statute ***requires*** the funding model to include a Pell-eligible metric within the Role & Mission portion of the model which equals at least 10% of the College Opportunity Fund (COF) stipend per credit hour taken by a Pell eligible student.

In addition, statute ***allows*** a metric within the Performance portion of the model to provide an additional bonus for each completion and transfer of a Pell-eligible student. **The funding allocation formula complies with statute and provides a 10% bump on the Role and Mission side and a 60% bump on the Performance side.**

Other states with outcomes based funding models provide a Pell bonus <u>on completions only</u>. In fact, Colorado has the highest Pell bonus for completions in the nation – a 60% premium – while most other states with outcomes based funding models provide only a 40% bonus.

The biggest factor that impacts funding for low-income/Pell students is the overall amount of funding for higher education. The proposed reduction of $20 million decreases the amount of state funding available for all students and will likely result in increased tuition rates.

Tuition Policy

Pursuant to statute, **CCHE developed a tuition policy** which will **ensure both accessible and affordable higher education** for Colorado residents; **reflect the level of state operating funding**; reflect the **need of each institution to enhance** the quality of education programs and offerings; and strengthen the financial position of the institution.

- **SB 10-003; C.R.S. § 23-1-108(12)(b):** CCHE shall *"establish tuition policies based on institutional role and mission, and the governing boards shall set tuition consistent with said policies"* beginning in FY 2016-17
- **C.R.S. § 23-5-129(6)(c):** *"While operating pursuant to a performance contract negotiated pursuant to this section, the governing board of a state institution of higher education"*...such institution *"shall report to the Colorado commission on higher education its plans for any tuition or other proposed increases for the following fiscal year, using approved forms, for the commission to review and make recommendations to the general assembly during the annual budget process.*"
- **HB 14-1319; C.R.S. § 23-18-306(5):** *"Commission shall submit to the Joint Budget Committee and to the Education Committees"…"tuition policies that ensure both accessible and affordable higher education for Colorado residents."…"Must also reflect the level of state funding"…"the need of each institution to enhance the quality of education programs and offerings and strengthen the financial position of the institution."*

In developing the policy, roles and responsibilities were clearly identified:

- The **General Assembly establishes policy and priorities through statute** to be implemented by CCHE, CDHE and the Governing Boards.
- CCHE has a responsibility **to exercise oversight** and to **ensure that educational quality** and **student access** are maintained.
- **Governing boards** have the **responsibility and authority for the financial management** of their institutions. A major component of sound financial management is the setting of tuition. Since institutions have unique roles and missions and differing student needs, governing boards are best equipped to set tuition and hold a fiduciary duty to their respective institutions.

In statute, **the authority to set tuition rates continues to remain a power of the governing boards**, which have a responsibility and authority for the financial management of their institutions. This would not change with CCHE's proposed tuition policy.

While there may have been an expectation for the proposed tuition policy to provide a clear cap or restriction on tuition levels for the foreseeable future, the reality is **state funding for higher**

education in Colorado is volatile and unpredictable. Tuition rates are directly linked to the level of investment or disinvestment the state makes annually through the General Fund appropriation to higher education.

Historically, the level of higher education investment has depended on statewide budget balancing. Decisions about the level of state funding for public postsecondary institutions did not have the benefit of a full understanding on the impact state funding for higher education has on the system as a whole and the affordability of a postsecondary education for Colorado residents. Through the Cost Sharing matrix included in the Governor's annual budget package, the Department and CCHE **seek to ensure policymakers have a clear understanding of the implications state budget** decisions around General Fund have on undergraduate, resident tuition rates.

The General Assembly is the ultimate decision maker on the level of state funding invested in public postsecondary institutions. **The Department envisions the level of state investment determined by the General Assembly will trigger the corresponding potential tuition limit for that particular fiscal year**, **based on the Cost Sharing Matrix**. The General Assembly would approve CCHE and the Governor's recommended tuition cap by taking no action (i.e., not running a tuition cap bill).

As always, should the General Assembly choose to, it could convey its annual tuition rate limit expectation – *as expressed by the Cost Sharing Matrix, or a different limit determined by the General Assembly* - in a footnote to the informational tuition line item in the Long Bill, or through the use of other legislative tools, such as a JBC letter or statute. **CDHE's intent with the Cost Sharing Matrix is to provide an analytical tool for the legislature to inform the General Assembly on the link between State funding to institutions and tuition rates.**

As stated earlier, statute already requires CCHE to include tuition recommendations for resident undergraduate students in its annual budget request. CCHE's annual tuition limit recommendation will include a clear picture of higher education finance through the Cost Sharing Matrix.

<u>Tuition Included in the Long Bill for Informational Purposes Only</u>

While **no statutory change is needed to implement the CCHE adopted tuition policy and process**, CDHE and CCHE do see a critical need to amend statute in order to continue including tuition revenue in the Long Bill for information purposes only.

The appropriation of tuition is a bureaucratic process making predictions 18 months in advance for enrollment levels and the mix of students (resident, non-resident, undergraduate and graduate), as well as the tuition to be charged in order to calculate an estimated total tuition revenue amount resulting in a spending authority limit. Actual tuition revenue is then trued-up through the supplemental and 1331 process, adding workload to the JBC, institutions, and the Department. The Department sees no additional value or more accurate tuition revenue estimates with appropriating tuition. Rather, the spending authority limit acts to either limit access, by limiting the number of students an institution can enroll, or hamper quality.

Implementation of the CCHE recommended tuition policy would **not make significant changes to the budget process**. Rather, it will maintain the current process of including tuition in the Long Bill for informational purposes.

Attachment – Tuition Crosswalk

TUITION CROSSWALK

Revised January 21, 2016

The table below provides a crosswalk between current law and processes and the CCHE proposed statutory and process changes. Please note **this process *DOES* envision a role for the General Assembly**, as noted on page 5 of the DHE response to the JBC's January 12, 2016 letter.

PROCESS/ AUTHORITY	CURRENT LAW (EFFECTIVE JULY 1, 2016)	CCHE PROPOSED TUITION POLICY	
		PROPOSED CHANGE TO STATUTE/PROCESS	NOTES
General Assembly Role	The General Assembly passes the state budget and establishes policy and priorities through statute to be implemented by CCHE, CDHE and the Governing Boards. Tuition revenue will be appropriated in the Long Bill. Tuition rate assumptions will be included in a Long Bill footnote and controlled through spending authority. Supplemental bills and 1331s will be required to adjust for actual enrollment mixes at the institutions and variability from the tuition revenue and enrollment forecast. *C.R.S. § 23-1-104(1)(b)(I):* *For the 2010-11 fiscal year and for fiscal years on or after July 1, 2016, the general assembly shall make annual appropriations of general fund moneys, of cash funds received from tuition income.* *C.R.S. § 23-5-129 (10):* *While a state institution of higher education is operating pursuant to a performance contract negotiated pursuant to this section, the general assembly retains the authority to approve tuition spending authority for the governing board of the institution.* *C.R.S. § 23-18-202 (3) (b) (I):* *The tuition increases from which the general assembly derived the total cash spending authority for each governing board shall be noted in a footnote in the annual general appropriations act.*	Tuition revenue would be appropriated in the Long Bill for information purposes only. The level of investment, or lack thereof, for higher education in the Long Bill would implement the corresponding tuition rate policy for that particular fiscal year, informed by the *Cost Sharing Matrix* analysis. *<u>Changes to statute</u>* *Amend: C.R.S. § 23-1-104(1)* *Repeal: C.R.S. § 23-5-129(10)* *Repeal: C.R.S. § 23-18-202 (3) (b) (I)*	The General Assembly ***continues to pass the state budget and establish policy and priorities*** through statute and budget to be implemented by CCHE, CDHE and the Governing Boards. The General Assembly ***continues to have the ability*** to express the tuition rate limit expectation for that fiscal year *– as expressed by the Cost Sharing Matrix, or another level determined by the General Assembly* - for the budget year in a footnote to the informational item in the Long Bill, or another legislative tool, such as a JBC letter or statute.

PROCESS/ AUTHORITY	CURRENT LAW (EFFECTIVE JULY 1, 2016)	CCHE PROPOSED TUITION POLICY	
		PROPOSED CHANGE TO STATUTE/PROCESS	NOTES
CCHE Role	The Commission shall establish tuition policies based on institutional role and mission and, and the governing boards shall set tuition consistent with said policies and the Commission shall be required to include in the annual budget request tuition recommendations for resident undergraduate students for each state institution of higher education. *S.B. 10-003; C.R.S. § 23-1-108(12)(b):* *CCHE shall "establish tuition policies based on institutional role and mission, and the governing boards shall set tuition consistent with said policies" beginning in FY 2016-17.* *C.R.S. § 23-5-129(6)(c):* *"While operating pursuant to a performance contract negotiated pursuant to this section, the governing board of a state institution of higher education"...such institution "shall report to the Colorado commission on higher education its plans for any tuition or other proposed increases for the following fiscal year, using approved forms, for the commission to review and make recommendations to the general assembly during the annual budget process."*	***No change.***	Additional tuition rate flexibility could be provided through the Tuition Accountability Plan mechanism, operational only in times of general fund increase, as described in CCHE policy. Senate Bill 10-003, which provided governing boards with tuition flexibility for five years (FY 2011-12 through FY 2015-16), included the addition of C.R.S. § 23-1-108(12)(b) and goes into effect on July 1, 2016 for the FY 2016-17 fiscal year. *C.R.S. § 23-1-108(12)(b)*

PROCESS/ AUTHORITY	CURRENT LAW (EFFECTIVE JULY 1, 2016)	CCHE PROPOSED TUITION POLICY: PROPOSED CHANGE TO STATUTE/PROCESS	CCHE PROPOSED TUITION POLICY: NOTES
Governing Board Role	Governing boards have the authority to set tuition within specified tuition increase limits, if applicable, established annually by the Commission and subject to any statutory requirements or appropriations in any given year. *S.B. 10-003; C.R.S. § 23-1-108(12)(b):* *CCHE shall "establish tuition policies based on institutional role and mission, and the governing boards shall set tuition consistent with said policies" beginning in FY 2016-17* *C.R.S. § 23-5-129(6)(c):* *"While operating pursuant to a performance contract negotiated pursuant to this section, the governing board of a state institution of higher education"...such institution "shall report to the Colorado commission on higher education its plans for any tuition or other proposed increases for the following fiscal year, using approved forms, for the commission to review and make recommendations to the general assembly during the annual budget process."* *Additional authority per individual governing board statute.*	***No change.***	Governing boards can request additional tuition flexibility could by submitting a Tuition Accountability Plan mechanism, operational only in times of general fund increase, as described in CCHE policy. *C.R.S. § 23-1-108(12)(b)*
Executive Budget Process	Integration of the tuition recommendation process with the development of the executive budget request. *C.R.S. § 23-5-129(6)(c):* *"While operating pursuant to a performance contract negotiated pursuant to this section, the governing board of a state institution of higher education"...such institution "shall report to the Colorado commission on higher education its plans for any tuition or other proposed increases for the following fiscal year, using approved forms, for the commission to review and make recommendations to the general assembly during the annual budget process.*	***No change.***	

<table>
<tr><th rowspan="2">PROCESS/
AUTHORITY</th><th rowspan="2">CURRENT LAW
(EFFECTIVE JULY 1, 2016)</th><th colspan="2">CCHE PROPOSED TUITION POLICY</th></tr>
<tr><th>PROPOSED CHANGE TO
STATUTE/PROCESS</th><th>NOTES</th></tr>
<tr><td>Enrollment and Revenue Forecasting</td><td>In February, CDHE and institutional staff provide Legislative Council and JBC staff with executive branch forecast for tuition revenue and enrollment.</td><td>No change.</td><td></td></tr>
<tr><td>Figure Setting</td><td>The Joint Budget Committee will decide which tuition and enrollment forecast to use for figure setting — Legislative Council, CDHE or a combination of the two. Tuition will be appropriated in the Long Bill.</td><td>No change in process, except that tuition revenue would be for informational purposes in the Long Bill.

<u>Changes to statute</u>
Amend: C.R.S. § 23-1-104(1)
Repeal: C.R.S. § 23-5-129(10)
Repeal: C.R.S. § 23-18-202 (3) (b) (I)</td><td></td></tr>
<tr><td>Current Year/
True-up Process</td><td>Because the current process relies on predictions 18 months out as to enrollment levels and the mix of students, supplemental bills and 1331s will be necessary throughout the fiscal year to adjust institutions' spending authority to account for actual.

Tuition revenue will be trued up in a Long Bill add-on after the fiscal year is over. The re-appropriated line item for each institution will be adjusted throughout the year for COF stipend enrollment changes and tuition changes. The adjustment for these items will be delineated in a footnote.</td><td>Supplemental bills, 1331s and Long Bill add-ons will not be necessary to adjust tuition revenue.

<u>Changes to statute</u>
Amend: C.R.S. § 23-1-104(1)
Repeal: C.R.S. § 23-5-129(10)
Repeal: C.R.S. § 23-18-202 (3) (b) (I)</td><td>Final tuition revenue will continue to be provided to JBC staff through the Budget Data Books.</td></tr>
</table>

DRAFT PROPOSED STATUTORY CHANGES

	CURRENT STATUTE	CHANGES BEING SOUGHT BY CCHE
Financing of Higher Education	**C.R.S. § 23-1-104. Financing the system of postsecondary education--report--repeal**	**Amend as follows:** (1)(a)~~(I) For fiscal years 2011-12 through 2015-16, the general assembly shall make annual appropriations of moneys that are estimated to be received by an institution, under the direction and control of the governing board, as stipends, as defined in section 23-18-102, and through fee-for-service contracts, as authorized in sections 23-1-109.7 and 23-18-303, as a single line item to each governing board for the operation of its campuses; except that, if the general assembly appropriates moneys, as described in paragraph (c) of this subsection (1), to the Colorado state forest service, the agricultural experiment station department of the Colorado state university, or the Colorado state university cooperative extension service, such moneys shall not be included within the single line item appropriations described in this paragraph (a).~~ ~~(II) This paragraph (a) is repealed, effective July 1, 2016.~~ ~~(b)(I) For the 2010-11 fiscal year and for fiscal years beginning on or after~~ Beginning July 1, 2016, and thereafter, the general assembly shall make annual appropriations of general fund moneys~~, of cash funds received from tuition income,~~ and of moneys that are estimated to be received by an institution, under the direction and control of the governing board, as stipends, as defined in section 23-18-102, and through fee-for-service contracts, as authorized in sections 23-1-109.7 and 23-18-303, as a single line item to each governing board for the operation of its campuses; except that, if the general assembly appropriates moneys, as described in paragraph ~~(c)~~ (b) of this subsection (1), to the Colorado state forest service, the agricultural experiment station department of the Colorado state university, or the Colorado state university cooperative extension service, such moneys shall not be included within the single line item appropriations described in this paragraph ~~(b)~~. ~~(II) For the 2010-11 fiscal year and for fiscal years beginning on or after July 1, 2016, the general assembly shall also make annual appropriations of cash funds, other than cash funds received as tuition income or as fees, as a single line item to each governing board for the operation of its campuses. Each governing board shall allocate said cash fund appropriations to the institutions under its control in the manner deemed most appropriate by the governing board.~~

	CURRENT STATUTE	CHANGES BEING SOUGHT BY CCHE
		~~(c)~~ (b) In addition to any appropriations made pursuant to paragraph (a) ~~or (b)~~ of this subsection (1), the general assembly may make annual appropriations of general fund moneys and of moneys received pursuant to a fee-for-service contract negotiated by the board of governors of the Colorado state university system and the department of higher education, as described in section 23-18-303, as separate line items to:
Duties of CCHE	**C.R.S. § 23-1-108 (12) (b):** For fiscal years beginning on or after July 1, 2016, the commission shall establish tuition policies based on institutional role and mission, and the governing boards shall set tuition consistent with said policies.	No need to amend. This statute will be referred to in the governing board statutory sections to require governing boards to set tuition consistent with CCHE policies. See "GB Tuition Authority" section below.
Performance Contracts	**C.R.S. § 23-5-129 (6) (c):** While operating pursuant to a performance contract negotiated pursuant to this section, the governing board of a state institution of higher education...Shall report to the Colorado commission on higher education its plans for any tuition or other proposed increases for the following fiscal year, using approved forms, for the commission to review and make recommendations to the general assembly during the annual budget process; except that the provisions of this paragraph (c) shall not apply for fiscal years 2011-12 through 2015-16. **C.R.S. § 23-5-129 (10):** While a state institution of higher education is operating pursuant to a performance contract negotiated pursuant to this section, the general assembly retains the authority to approve tuition spending authority for the governing board of the institution; except that the provisions of this subsection (10) shall not apply for fiscal years 2011-12 through 2015-16.	**Amend as follows:** While operating pursuant to a performance contract negotiated pursuant to this section, the governing board of a state institution of higher education...Shall report to the Colorado commission on higher education its plans for any tuition or other proposed increases for the following fiscal year~~, using approved forms,~~ for the commission to review and make recommendations to the general assembly during the annual budget process; except that the provisions of this paragraph (c) shall not apply for fiscal years 2011-12 through 2015-16. **Strike**
COF/FFS	**C.R.S. § 23-18-202 (3) (b) (I):** The tuition increases from which the general assembly derived the total cash spending authority for each governing board shall be noted in a footnote in the annual general appropriations act.C.R.S. § 23-18-202 (3) (b) (II): Notwithstanding the provisions of subparagraph (I) of this paragraph (b), for fiscal years 2011-12 through 2015-16, tuition increases shall not be noted in a footnote in the annual general appropriation act. Each governing board shall establish tuition in each of said fiscal years as provided in section 23-5-130.5. This subparagraph (II) is repealed, effective July 1, 2016.	**Strike**

	CURRENT STATUTE	CHANGES BEING SOUGHT BY CCHE
GB Tuition Authority	Tuition setting authority for governing boards is currently managed/restricted in part by section C.R.S. § 23-5-130.5	**Amend each governing board section as follows:** Notwithstanding any provision of subsection (***x***) of this section to the contrary, ~~for fiscal years 2011-12 through 2015-16,~~ the [board of regents/governing board/etc], in accordance with section ~~23-5-130.5~~ 23-1-108 (12) (b) **Statutory Sections to be Amended:** • CU: 23-20-112(2)(a) • CSU: 23-30-112(2)(a) • UNC: 23-40-104.5 • Adams: 23-51-102.5(1) • Ft. Lewis: 23-52-105(1)(b)(II) • Mesa: 23-53-102.5(1) • Metro: 23-54-102.5(1) • Western: 23-56-102.5(1) • CCCS: 23-60-202(1)(c)(I)(B)

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Department of
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Executive Director

January 20, 2016

FY 2017 JBC Hearing Follow-up Responses

1) Provide additional detail on higher education cost-drivers. In particular, please provide break-out information on growth in administrative salaries/costs versus other salaries/costs.

Additional Detail on Higher Education Cost Drivers

The Colorado Department of Higher Education contracted with the National Center for Higher Education Management Systems (NCHEMS) to perform an analysis of higher education costs in Colorado, and how these compared to costs of similar institutions (See the attached report, "Why Higher Education Costs are What They Are", June 30, 2015).

According to the NCHEMS report, the ***majority of costs at Colorado public institutions of higher education are a direct result of faculty and staff compensation****. Remaining costs include supplies and operating expenses (utilities, insurance, office and laboratory supplies, maintenance of plant, etc.). Among the findings the study found that Colorado public institutions:*

- ***Operate on fewer resources*** *to support basic operations than do similar institutions in other states*
- ***Have reduced costs and are already far more efficient*** *than similar systems and institutions in other states*
- ***Spend less than what would be expected****, relative to peer institutions across the country*

Furthermore, the study found that the revenue per student available to finance costs is substantially less than revenues available to similar institutions in most other states. ***Colorado institutions receive significantly less state support than many similar institutions around the country****. As a result,* ***institutions must rely on tuition revenue*** *to cover expenses resulting in increased cost to students. However, Colorado public institutions charge average or below average tuition – hence, the overall lower total revenue available to Colorado institutions.*

The NCHEMS Cost Driver Study did not delve into the details of administrative salaries/costs versus other salaries/costs; however, a recent national study of higher education staffing and compensation patterns generally addresses this question for public higher education institutions.

The Delta Cost Project issue brief, "Labor Intensive or Labor Expensive?" examines higher education staffing and compensation patterns from 2000-2012.[1] *The brief found:*

- *While the public higher education workforce grew by 28% from 2000 to 2012, the* ***increase largely mirrored rising enrollments at institutions****. In fact, public research institutions and community colleges employed 16 fewer staff per 1,000 student FTE in 2012 than they did in 2000;*
- ***The growth in administrative jobs*** *across higher education was in professional positions, such as* ***admissions and student support staff****, as opposed to executive and managerial positions; and*
- *Wage and salary* ***expenditures for student services*** *were the* ***fastest growing salary expense*** *at most types of institutions nationwide.*

Please note, student services are increasingly important when considering CCHE's Master Plan goals of increasing completions and closing the attainment gap. Some of the costs around student services are associated with providing financial and academic advising to students. The increasing population of non-traditional students institutions must serve to reach the Master Plan goals has resulted in a higher percentage of students which need academic remediation or support and who are low income.

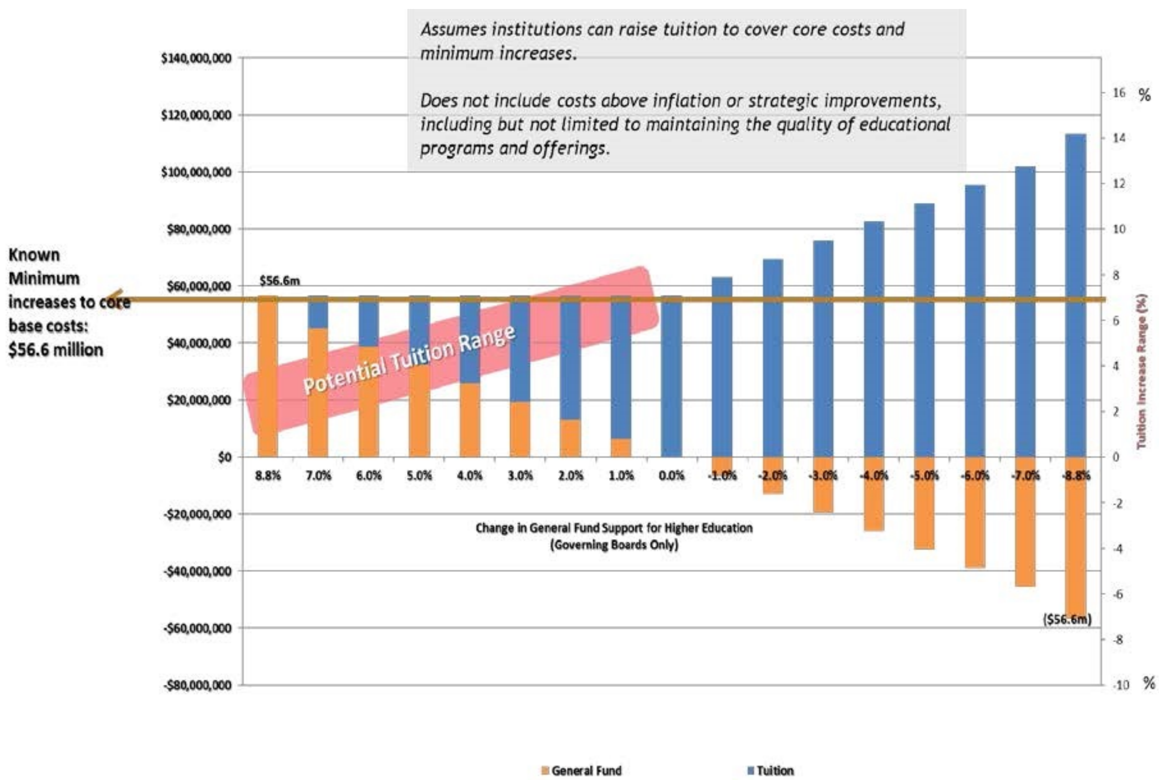
Department staff could conduct a similar Colorado specific analysis of staffing and compensation patterns for the Colorado public colleges and universities; however, this research and analysis would take additional resources and require significantly more time to complete than that allowed for responses to JBC hearing follow-up questions.

Given the importance of staffing and compensation, individual governing boards pay close attention to staffing patterns and compensation. At the JBC hearing, the University of Colorado referred to the extensive tracking of indicators (including administrative expenditures as a percent of total expenditures) and extensive analysis of cost drivers, including staffing and compensation. You can view at https://www.cu.edu/cost-drivers-cu, as an example of the kinds of staffing and compensation data utilized by governing boards to effectively and efficiently manage their respective institution.

[1] Desrochers, Donna and Rita Kirshstein. "Labor Intensive or Labor Expensive?" February 2014. Delta Cost Project. January 2016 <http://www.air.org/sites/default/files/downloads/report/DeltaCostAIR-Labor-Expensive-Higher-Education-Staffing-Brief-Feb2014.pdf>.

2) Please clarify your tuition proposal in the event that the General Assembly were to provide an increase of $56.6 million, instead of the currently-proposed $20 million funding reduction. In this event, what cap would you propose on tuition levels? If your proposal would be for something greater than 0.0%, what would you expect the additional tuition revenue to fund, i.e., if additional tuition revenue is expected to support "quality improvements" what would those be? Would any entity other than the individual governing boards vet these proposals?

If the General Assembly were to provide the governing boards an increase of $56.6 million[2], instead of the currently proposed $20 million funding reduction, the Colorado Commission on Higher Education (CCHE) would propose a 3% to 4% tuition rate increase cap. See the Cost Sharing Matrix below.



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[2] *A $56.6 million increase to the governing boards results in a total General Fund increase of $72.3, as statute requires proportionate increase the local district junior colleges, area vocational schools and financial aid. Please note the inflation included in the $56.6 million minimum increases is based on the total Education and General (E&G) base, including state funding and tuition revenue. The E&G base is approximately $2.8 billion for public governing boards.*

As the Cost Sharing Matrix illustrates, if the General Assembly reduces funding by $20 million, the system wide analysis indicates tuition rate increases would need to be in the range of 9% to 11%. This level of rate increase would be necessary to cover the state reduction of $20 million plus the known core minimum inflationary cost increase of $56.6 million. The CCHE policy proposes no statewide tuition increase cap if state funding is reduced.

With regard to the question about "what" the revenue generated from a tuition rate increase funds, the answer is dependent upon: (1) the level of General Fund the General Assembly provides and (2) the individual circumstances of each i nstitution.

For example:

- *If there is a General Fund reduction, the revenue generated from a tuition rate increase would primarily be used to finance costs that were funded by the General Fund in the previous year and any mandatory/non-discretionary and inflationary cost increases.*
- *If there is a General Fund increase in the range of $56 million, a portion of the revenue generated from a tuition rate increase would be used to finance some of the mandatory/non-discretionary and inflationary cost increases above the inflation rate and result in a lower tuition rate increase for students and families.*

As to whether revenue generated from a tuition rate increase is expected to support "quality improvements", those specific decisions are made by an institution's leadership and governing board.

In accordance with our constitutional and statutory governance structure, governing boards hold a fiduciary duty to their respective institution, and provide the necessary financial oversight of their respective institution. Financial oversight includes approval of the institution's annual budget which captures the spending plan for tuition revenues which would include consideration of strategic initiatives.

3) In the event the General Assembly were to provide a funding increase, do you think that you could achieve consensus on the allocation model? (The Lt. Governor indicated that this was unlikely; but it may be something you want to explore further.)

A state funding increase is ***critically important to the affordability of post-secondary education for Colorado students and families****, as it reduces the pressure on tuition to finance postsecondary educational costs.*

As to whether a funding increase could achieve consensus on the allocation model, as Lt. Governor Garcia stated at the January 6, 2016 JBC Hearing, the level of funding is unlikely *to impact achieving consensus on the allocation model. The Colorado Commission on Higher Education (CCHE) and the Department of Higher Education (CDHE) absolutely would have preferred to achieve a consensus of the 10 governing boards. Unfortunately, despite the best efforts of all involved parties that proved to be impossible.*

Extensive work - 35 hours over 14 meetings and completing over 170 model scenarios – *was undertaken by the Funding Allocation Model Review Team (FAMRT), which comprised ALL 10 governing boards and a representative from OSPB.* ***Eight governing boards agreed to move forward with Version 2.0****.*

As mentioned during the third day of your JBC hearings with higher education, each of the governing boards desire something in the formula that would specifically benefit them but would be in conflict with what another governing board would want. These governing boards made concessions throughout the process to help build consensus. Over 170 model scenarios were created to help collectively understand the impact of the many different ideas vetted, and helped inform the discussions and decisions of the FAMRT.

The resulting formula is a product of these discussions, and compromises made by the team along the way, to achieve a ***carefully developed compromise*** *that* ***implements the provisions of HB 14-1319 while balancing the stated goals in the legislation*** *- to distribute funding among governing boards based on the metrics set forth and* ***ensure the educational quality and financial sustainability of all the state's institutions*** *of higher education.*