

# MEMORANDUM

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**TO:** Joint Budget Committee

**FROM:** Amanda Bickel

**SUBJECT:** January 15, 2015 Higher Education Updated Request

**DATE:** February 5, 2015

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House Bill 14-1319 (Outcomes based Funding for Higher Education) required the Department of Higher Education, on January 15, 2015, to submit an updated budget request for FY 2015-16 based on the results of its proposed funding allocation model. *The Committee indicated that it would like further information on the revised request and proposed legislation prior to figure setting for the Department of Higher Education.* This memo therefore provides an update on the Department's revised request. It also reviews the Department's request for new legislation, some of which staff believes should be acted on prior to Long Bill introduction.

## **JANUARY 15, 2015 CHANGES TO REQUEST AMOUNTS**

**The request is generally consistent information presented to the Committee in November and December 2014 by staff and the Department. There are some adjustments to underlying data and the resulting amounts for each institution, as well as further detail on some elements of the Department's proposal. None of the changes affect the total General Fund appropriation for the Department, with the exception of a \$250,000 budget amendment requesting funding for a new Alzheimer's center at the University of Colorado Health Sciences Center.**

The following basic contours of the executive request have **not changed**:

- 10.0% increase (\$60,588,527 General Fund) allocated based on the H.B. 14-1319 model using the basic model "settings" presented in November (to which all institutions have agreed).
- \$15,000,000 General Fund for funding to ease the transition to the new model
- A portion of the \$15.0 million used to bring all governing boards up to a 10.0% increase over their FY 2014-15 base. As in November, the request ties this to S.B. 14-001, which limited tuition increases for both FY 2014-15 and FY 2015-16 to 6.0 percent for undergraduate residents.
- Balance of the \$15 million used for a grant program to assist institutions in improving their performance on the model.

The January submission includes the following **refinements**:

- The revised request incorporates some corrections to the underlying data/formulas in the HB 14-1319 model. It also adds the "guardrails" into the model. As a result, **some institutions receive somewhat more & some receive somewhat less. The most significant change is an increase of over \$1 million for the community college system.** In general, the adjustments are fairly modest.

The table below is excerpted from the request and shows the final request by governing board, including: (1) annualizations of prior year bills; (2) model with guardrails; and (3) proposed adjustment to bring all boards to 10 percent increase.

<b>Governing Board</b>	<b>FY 2014-15 General Fund <sup>1</sup></b>	<b>FY 2014-15 General Fund <sup>2</sup></b>	<b>FY 2015-16 Total General Fund -- Results from Model w/ Guardrails <sup>2</sup></b>	<b>One Time Funding Required for 10% Increase</b>	<b>Percent Change</b>	<b>FY 2015-16 Total Allocation Request</b>
Adams State University	\$12,839,538	\$14,123,492	\$13,961,407	\$162,085	10.0%	\$14,123,492
Colorado Mesa University	\$22,036,251	\$24,239,876	\$24,402,736	\$0	10.7%	\$24,402,736
Metropolitan State University	\$43,835,318	\$48,218,850	\$50,353,372	\$0	14.9%	\$50,353,372
Western State Colorado University	\$10,587,697	\$11,646,467	\$11,487,064	\$159,403	10.0%	\$11,646,467
Colorado State University	\$122,007,733	\$134,208,506	\$133,191,630	\$1,016,877	10.0%	\$134,232,736
Fort Lewis College	\$10,597,979	\$11,657,777	\$11,956,065	\$0	12.8%	\$11,956,065
University of Colorado	\$167,136,060	\$183,849,666	\$182,483,559	\$1,366,107	10.0%	\$183,849,666
Colorado School of Mines	\$18,672,831	\$20,540,114	\$20,517,825	\$22,289	10.0%	\$20,540,114
University of Northern Colorado	\$37,368,277	\$41,105,105	\$39,236,691	\$1,868,414	10.0%	\$41,105,105
Colorado Community College System	\$137,775,300	\$151,552,830	\$153,552,335	\$0	11.5%	\$153,552,335
Local District Junior Colleges	\$14,044,591	\$15,449,050	\$15,449,050	\$0	10.0%	\$15,449,050
Area Vocational Schools	\$8,983,694	\$9,882,063	\$9,882,063	\$0	10.0%	\$9,882,063
<b>Total -- with 10% increase</b>	<b>\$605,885,269</b>	<b>\$666,473,796</b>	<b>\$641,142,684</b>	<b>\$4,595,174</b>	<b>10.8%</b>	<b>\$671,093,201</b>

<sup>1</sup> FY 2014-15 General Fund amount includes appropriations from HB14-1336, SB14-001, SB14-211, and a SB 13-033 base adjustment as per the SB 13-033 Legislative Council fiscal note..

<sup>2</sup> Includes \$60.6 million in requested base funding.

The table below compares the model allocation in November with the model allocation in January without specialty education amounts or guard rails, so the impact of corrections to underlying data in the model are visible.

Comparison November 2014 and January 2015 HED Allocation Model Results - Without SEP or Guardrails						
	November 2014 Amount (adjusted)*	November Model - Percentage Change Over Base	January 2015 Model Allocation pre-guardrails	January Model - Percentage Change Over Base	Difference (January 2015 - November 2014)	Does this change have an impact if all allocations are set with a base of at least 10% and a maximum 15% increase?
Adams	\$13,962,427	8.75%	\$13,971,259	8.81%	8,832	NO
Mesa	24,451,424	10.96%	24,423,520	10.83%	(27,904)	YES
Mines	20,614,290	10.40%	20,534,029	9.97%	(80,261)	YES
CSU	80,200,786	9.08%	79,916,754	8.69%	(284,032)	NO
CCC	152,530,466	10.71%	153,690,895	11.55%	1,160,429	YES
Ft. Lewis	11,997,366	13.21%	11,967,992	12.93%	(29,374)	YES
Metro	51,006,213	16.38%	50,870,227	16.05%	(135,986)	NO
CU	121,575,333	9.31%	121,057,886	8.85%	(517,447)	NO
UNC	38,469,171	2.94%	38,373,291	2.69%	(95,880)	NO
Western	11,493,415	8.55%	11,494,963	8.57%	1,548	NO

\*These amounts are based on the November model results plus an adjustment for the requested S.B.13-033 annualization to assist in the comparison with the January 2015 figures (which include this annualization)

- Based on the figures that result from the revised model, the calculation of how much is required to bring each institution up to the minimum 10.0 percent increase changes somewhat. **Department's final figure for bringing all governing boards up to 10 percent is \$4,595,175.** Note that this differs relatively little from the estimate in the briefing document of \$4.8 million. The Department now proposes that this amount be permanently built into base higher education funding. This would primarily have an impact on the application of the FY 2016-17 guard rails.
- **The balance (\$10,404,825) is proposed to be used for a grant program now called the Strategic Performance Investment Program (S-PIP) to assist institutions in improving their performance and would require new legislation.** This amount is also close to the estimated figure discussed in staff's briefing presentation, with the same basic purpose as was discussed in the briefing. This is a one-year request, although staff assumes the Governor's Office may request funding for this program in future years also.
- The Department's request provides **substantial additional detail on how the S-PIP would be allocated and used.** This is described further below, as this program would require new legislation.

**STATUTORY CHANGES REQUESTED**

The Department requests that the Committee sponsor legislation on four issues. Based on further review of these issues, **staff believes that the Committee should introduce legislation related to some of these issues in advance of the Long Bill so that numbers in the Long Bill are accurate.** Other items can be reasonably addressed as part of the Long Bill package. Specifically, staff believes that *technical fixes to H.B. 14-1319 (item #1) and any potential*

*waiver to calibration requirements for financial aid (item #2) should be addressed prior to the Long Bill.*

**1. Technical fixes to definition of “Total Governing Board Appropriation” and treatment of appropriations in new legislation**

*Request:* The Department requests a technical change to the definition of “total Governing Board appropriations” in Section 23-18-302 (9), C.R.S. The current statute is shown below and defines this amount based on the Long Bill appropriation. However, this misses: (1) appropriations included in other bills (such as S.B. 14-001, where much of the Higher Education appropriation for FY 2014-15 was included); and (2) any base adjustments from previous legislation and fiscal notes. This includes, for example, amounts the Department requests be added in FY 2015-16 to annualize the appropriations in S.B. 13-033.

*Recommendation:* Staff concurs that a technical change is needed and that statute added in H.B. 14-1319 needs to be amended to clarify how appropriations for “special bills” are treated in the H.B. 14-1319 calculations. Staff believes the recommended adjustment could be accomplished through the following statutory changes, based on consultation with the Office of Legislative Legal Services and the Department:

23-18-302 (9) "Total governing board appropriation" means, for a fiscal year, the sum of the amount appropriated to the governing board of a state institution of higher education for a fee-for-service contract negotiated pursuant to [section 23-18-303](#) and the amount stated as reappropriated spending authority ~~in the general appropriations act~~ for the governing board to expend stipends received pursuant to [section 23-18-202](#) on behalf of eligible undergraduate students.

23-18-305. (1) (a) For the 2015-16 state fiscal year through the 2019-20 state fiscal year, the total governing board appropriation for a governing board for a fiscal year shall not change from the preceding fiscal year by a percentage that is more than five percentage points less than or five percentage points greater than the percentage change in the total state appropriation from the preceding fiscal year. **NOTWITHSTANDING THIS PROVISION, APPROPRIATIONS MAY BE PROVIDED THAT RESULT IN A TOTAL GOVERNING BOARD APPROPRIATION THAT CHANGES FROM THE PRECEDING FISCAL YEAR BY A PERCENTAGE THAT IS MORE THAN FIVE PERCENTAGE POINTS LESS THAN OR FIVE PERCENTAGE POINTS GREATER THAN THE PERCENTAGE CHANGE IN THE TOTAL STATE APPROPRIATION IF THIS IS DUE TO AN APPROPRIATION ADJUSTMENT TO FUNDING AUTHORIZED PURSUANT TO ARTICLE 18 OF TITLE 23, COLORADO REVISED STATUTES, THAT: (1) IS PROVIDED IN A BILL OTHER THAN THE GENERAL APPROPRIATIONS ACT OR A SUPPLEMENTAL BILL AND IS BASED ON THE COSTS ASSOCIATED WITH IMPLEMENTING A STATUTORY CHANGE; OR (2) IS PROVIDED IN THE GENERAL APPROPRIATIONS ACT OR A SUPPLEMENTAL BILL AND IS ASSOCIATED WITH IMPLEMENTING A STATUTORY CHANGE ADOPTED IN A PRIOR YEAR.** Notwithstanding any provision of this part 3 to the contrary, the general assembly in the annual general appropriations bill shall adjust the total governing board appropriation for each governing board as necessary to comply with this section.

23-18-305. (2) (a) Except as provided in paragraph (b) of this subsection (2), for the 2015-16 state fiscal year and each fiscal year thereafter, the total annual appropriation in trust for eligible undergraduate students to the college opportunity fund pursuant

to [section 23-18-202](#) must be an amount equal to at least fifty-two and five-tenths percent of the total state appropriation for the applicable state fiscal year; except that the percentage may be less than fifty-two and five-tenths percent as a result of adjustments for actual enrollment made pursuant to [section 23-18-202 \(1\) \(c\)](#). OR AS A RESULT OF APPROPRIATIONS ADJUSTMENTS TO FUNDING AUTHORIZED PURSUANT TO ARTICLE 18 OF TITLE 23, COLORADO REVISED STATUTES, THAT ARE: (1) PROVIDED IN BILL OTHER THAN THE GENERAL APPROPRIATIONS ACT OR A SUPPLEMENTAL BILL AND BASED ON THE COSTS ASSOCIATED WITH IMPLEMENTING A STATUTORY CHANGE; OR (2) PROVIDED IN THE GENERAL APPROPRIATIONS ACT OR A SUPPLEMENTAL BILL AND BASED ON THE CHANGES IN COSTS ASSOCIATED WITH IMPLEMENTING A STATUTORY CHANGE ADOPTED IN A PRIOR YEAR.

**2. Waiver on the Financial Aid Calibration/Transfer of Moneys to Colorado Opportunity Scholarship Initiative**

As discussed related to the Department’s original November 1, 2014 submission, the Department requests that the JBC sponsor legislation that would allow it, in FY 2015-16, to not increase financial aid support at the same rate as the increase in funding for the governing boards. As reviewed in the briefing:

The Department’s request, if approved as requested, requires a bill: The Department has requested a *transfer* of \$30.0 million to the Colorado Opportunity Scholarship Initiative Fund but has not requested any other financial aid increases, although current statute requires such increases. Implementing the request would require a bill—both to transfer the funds AND to exempt the Department from the following requirement:

23-3.3-103 (1) The annual appropriations for student financial assistance under this article shall increase by at least the same percentage as the aggregate percentage increase of all general fund appropriations to institutions of higher education. Nothing in this section shall be construed to limit or impair the authority of the Colorado commission on higher education under [section 23-1-105](#).

The JBC has options for funding COSI and/or other financial aid programs that would not require a bill: If the JBC chooses to *appropriate* sufficient funds to the Colorado Opportunity Scholarship Initiative [which is part of 23-3.3] and/or to appropriate sufficient funds for other financial aid programs, those moneys would be counted as financial aid under the current statutory language, and thus no statutory change would be required. The 6.5% reserve requirement would, however, need to be observed.

The chart below shows the increase in financial aid funding that would be required if the Committee includes a Long Bill appropriation consistent with current statute (and assuming other elements of the request are approved as requested): \$17,431,717.

Financial Aid Funding Required by 23-3.3-103 (1), C.R.S.		
	FY 2014-15 Appropriation	FY 2015-16 Request

<b>Financial Aid Funding Required by 23-3.3-103 (1), C.R.S.</b>		
	<b>FY 2014-15 Appropriation</b>	<b>FY 2015-16 Request</b>
<b>Governing Board GF appropriations</b>		
Stipends for students at public institutions	\$294,582,047	\$294,582,047
Stipends for students at private institutions	1,506,375	1,506,375
Fee-for-service contracts	287,712,437	351,405,812
Strategic Performance Investment Program (S-PIP)*		10,404,825
Local district junior colleges	14,044,591	15,449,050
Area vocational schools	8,091,845	8,990,214
<b>Total</b>	<b>\$605,937,295</b>	<b>\$682,338,323</b>
Increase over prior year		\$76,401,028
<b>Percentage Increase in Gov Board GF appropriations</b>		<b>12.61%</b>
<b>Financial Aid (authorized in article 3.3 of Title 23)</b>		
Need based	\$109,346,789	\$109,346,789
Work study	21,432,328	21,432,328
Merit based	5,000,000	5,000,000
Veterans/Law Enforcement/POW	672,000	672,000
National Guard	800,000	800,000
Colorado Opportunity Scholarship Initiative (COSI)	1,000,000	1,000,000
<b>Total</b>	<b>\$138,251,117</b>	<b>\$138,251,117</b>
Increase over prior year (as requested)		0
<b>Percentage Increase required by 23-3.3-103 (1) if Gov Board Request approved</b>		<b>12.61%</b>
<b>Additional Dollar Increase Required for Financial Aid per 23-3.3-103 *</b>		<b>\$17,431,717</b>
<b>Requested Transfer for COSI</b>		<b>\$30,000,000</b>
<i>Reserve required on \$30,000,000 if appropriate to COSI or other financial aid instead</i>		<i>\$1,950,000</i>

\*S-PIP amounts could be exempted from this calculation depending upon language in the requested S-PIP legislation. This would reduce the statutory increase required to **\$15,057,744**.

As discussed during staff’s November briefing, staff believes the Committee should redirect a portion of the amount requested for COSI to need-based financial aid programs and thus **staff does not believe a statutory change will be required for the staff recommendation. However, if the Committee believes there is any chance that it will approve funding in the manner requested by the Governor—a \$30.0 million transfer to COSI--it should pursue legislation waiving the current financial aid “calibration” requirement before introducing the Long Bill.** *Otherwise, it would need to include financial aid appropriations in the Long Bill and take them away in separate legislation.*

**3. Total State Appropriation (TSA) Waiver for One-Time Funding**

*Request:* The Department seeks a waiver from the statutory requirement to increase specialty education programs, local district junior colleges and the area vocational schools at the same rate of increase from the previous fiscal year's total state appropriations:

- for the \$4.6 million in one-time funding allocations to the governing boards to bring institutions' increases up to at least 10%; and
- for any allocations made to a governing board from the \$10.4 million Strategic Performance Investment Program.

*Issues to Consider:*

- *Time frames/ What is included in the Long Bill:* Staff believes the Committee can wait to make decisions on this component of the request until figure setting. However, note that **any funding that the Committee wishes to exempt from the overall H.B. 14-1319 requirements would need to be appropriated in the separate legislation authorizing the funds to be exempted.**
- *Impact of Proposed Waivers:* The table below shows the base FY 2014-15 appropriations broken into two categories: components that are subject to the HB 14-1319 detailed model allocation; and components that are supposed to increase at a proportionate rate: specialty education programs, i.e., medical school, veterinary school, and agricultural extension programs, the local district junior colleges (Aims and Colorado Mountain College) and the area vocational schools (Emily Griffiths, Pitkins, Delta-Montrose):

	<b>FY 2014-15 Appropriation</b>	<b>Portion of FY 2014-15 Base in "Total State Appropriation" (subject to model)</b>	<b>Balance of FY 2014- 15 Base (specialty education programs, local district JCs, vocational schools)</b>
Adams	\$12,837,288	\$12,837,288	\$0
Mesa	22,027,251	22,027,251	0
Mines	18,669,456	18,669,456	0
CSU system	121,978,483	73,496,194	48,482,289
Community College System	137,465,925	137,465,925	0
Ft. Lewis	10,594,604	10,594,604	0
Metro	43,681,193	43,681,193	0
CU	167,097,810	111,178,401	55,919,409
UNC	37,357,027	37,357,027	0
Western	10,585,447	10,585,447	0
Local District JCs	14,044,591	0	14,044,591
Vocational Schools	8,983,694	0	8,983,694
<b>Total</b>	<b>\$ 605,322,769</b>	<b>\$ 477,892,786</b>	<b>\$ 127,429,983</b>

Out of the one-time transitional funding of \$15.0 million, the Department has requested \$4,595,175 to bring all governing boards up to 10 percent and has requested \$10,404,825 for the S-PIP grant program. Calculated on the base of funds subject to the model, the \$4.6 million represents an increase of **0.96 percent** on the \$477,902,786 base, while the full \$15.0 million represents an increase of **3.14 percent**. The chart below shows the additional amounts that would be provided to specialty education, local districts, and vocational schools if there is no waiver provided.

	<b>If no "waiver" for \$4.6 million increase to bring all to 10.0 percent</b>	<b>If no "waiver" for entire \$15.0 million transitional funds (including S-PIP)</b>
<i>Percentage Increase</i>	0.96%	3.14%
CSU specialty ed	466,181	1,521,752
CU specialty ed	537,693	1,755,187
Local District JCs	<b>135,046</b>	440,829
Vocational Schools	<b>86,383</b>	281,978
Total	\$ 1,225,303	\$ 3,999,746

*Staff believes moneys allocated for the S-PIP should be exempted from the proportionate funding requirement because these represent grant funds, as opposed to moneys for ongoing governing board support. However, for the \$4.6 million, the Committee might consider exempting only the specialty education programs from the calculation and thus providing slightly more funding for local district junior colleges and area vocational schools (total cost of \$221,429). If exempted as requested, the area vocational schools and local district junior colleges (as well as the specialty education programs) will still receive a 10 percent funding increase. However, the area vocational schools (Pitkin, Delta-Montrose, and Emily Griffiths) and local district junior colleges (Aims and Colorado Mountain College) do not otherwise benefit from these additional \$4.6 million funds, which will be built into overall base funding for the governing boards, or from the \$10.4 million for the new grant program, at least in this first year.*

**4. Creation of a Strategic Performance Investment Program Under CCHE**

*Request:* The Department requests the Committee sponsor legislation to create the proposed new grant program—the Strategic Performance Investment Program—under the authority of CCHE. The request notes that an important goal of the new funding model is to push all institutions to improve performance. The timing of the new HB 14-1319 funding model makes it impossible for governing boards to address issues that result in poor performance under the model. The Department therefore proposes that the General Assembly create a grant program (through a statutory change) that would allow CCHE to allocate funds to governing boards to help them



address problem areas ranging from low enrollment to poor persistence and completion. Some of the key points:

#### Process

- CCHE would issue a request for proposals centering on helping institutions improve performance in the policy areas highlighted in the H.B. 14-1319 funding model. The RFP would be issued in March 2015 with proposals due in May.
- An advisory committee composed of interested stakeholders including legislators, CCHE members, and community members would evaluate the proposals and award one-time funding on July 1, 2015.
- In this first year, moneys would be targeted to institutions for which model results dictated an increase of less than 10.0 percent.
- The Department would include a final report on the program with the submission of the November 1, 2016 budget request, documenting best practices and lessons learned.

#### Criteria

- Each application would need to address one of the following three areas and would need to provide an explanation of how outcomes would be measured using data.
  - Student Success:* improving retention and degree/certificate completion
  - Closing Achievement Gaps:* Programs that help close achievement gaps among students from underrepresented ethnic, racial and income groups in all areas of educational progress (Pell-eligible/Underrepresented minorities)
  - Operational Efficiencies:* Assessing institutional capacity to better allocate resources that improve performance: infrastructure improvements, consolidation of administrative functions, etc.

#### Program Examples

- Efforts to streamline administrative tasks, e.g. through shared business center models.
- Expanding or implementing programs that support entering students with a need for remedial English/math coursework in order to aid their progress.
- Implementing an online data-driven advising support system to notify advisers when students are not able to complete critical courses or when a student's performance indicates the student needs additional help.
- Marketing to enhance the recruitment of students.

#### *Issues to Consider:*

- *Time frames/ What is included in the Long Bill:* Staff believes the Committee can wait to make decisions on this component of the request until figure setting. Staff assumes any funding appropriated for this program would be provided in the bill authorizing the program and would be part of the JBC's Long Bill package.
- As discussed above and in the staff budget briefing, staff believes such a program would be beneficial. However, staff would suggest with the following specific

adjustments/refinements to the proposal, should the Committee choose to proceed with it:

*Advisory Committee structure:* The Department has indicated that awards related to this program would be reviewed by an advisory committee that would include legislators. If the JBC has strong feelings about the composition of such a committee it could specify this in the related legislation.

*Use over time:* Staff recommends that funds that are allocated pursuant to this program be allowed to be expended by institutions over multiple years. There are some short-term investments that may yield improved performance under the model; however, in general, staff believes that it takes time to “turn” higher education institutions, given their size and complexity. Staff therefore believes that any funds allocated be allowed to be used over a period of up to three years.

*Best practices:* Staff recommends that, to the extent feasible, programs funded through this grant program should build on “best practices”. For example, a program designed to improve student retention should be reasonably structured to achieve this based on evidence from other, similar programs nationwide. Staff recognizes that this expectation cannot be applied to all initiatives—some because they are truly unique and experimental and some because of the type of initiative proposed, e.g., funding for a publicity campaign.

*“Operational Efficiencies” Component:* Issue to consider: The request indicates that “operational efficiencies” would be one of the elements for which the S-PIP would be made available. From staff’s perspective this does not tie as closely to the goals of the Master Plan or to improving institutions’ performance in the HB 14-1319 model as other proposed uses for the S-PIP. That said, if more efficient institution operations can assist an institution in transitioning to less state funding, this might indeed be an appropriate use of transition funding.

*Accountability:* The request proposes a report on the first-year impact of the program. Staff recommends that, if the JBC and General Assembly authorize spending over time, they should require regular reporting from the grantees to the CCHE and from the CCHE to the General Assembly over multiple years. This could include a preliminary report in November 2017 (after the first full year of funding) and *subsequent reports* if funding is used or appropriated in future years.

*Sunset:* Staff suggests that this program sunset in 2020, with the final authority for grant allocations June 30, 2020 and a final report on the program by November 2020.

**5. Previously-approved: delay in S.B. 11-052 performance funding component**

The Committee previously approved drafting a bill to delay by one year (until FY 2016-17) any allocation of funds associated with old S.B. 11-052 performance funding model (Section 23-1-108, C.R.S.) while the Department studies this issue further over the summer. Funding associated with S.B. 11-052 could otherwise be triggered in FY 2016-17 and would need to be built into the FY 2016-17 request. *Staff assumes that, if feasible, the Committee will want to combine the bill draft for this bill (OLLS 15-0773) with one of the other pieces of proposed legislation above (ideally #1).*