MEMORANDUM

JOINT BUDGET COMMITTEE

TO	JOINT BUDGET COMMITTEE
FROM	Amanda Bickel, JBC Staff
DATE	September 20, 2019
SUBJECT	Update on the Higher Education Funding Model

This memo provides an update on changes to the higher education funding model that are currently being considered pursuant to the provisions of S.B. 19-095. **The model described below is still in draft form.** The information included is based on public presentations to the Colorado Commission on Higher Education and does not reflect the Department's final proposal that must ultimately be approved by the Colorado Commission on Higher Education and the Governor's Office and submitted to the General Assembly by November 1, 2019. JBC Staff is providing an update at this time in the hope that feedback from the Committee may inform the model proposal ultimately submitted.

CURRENT FUNDING MODEL

Funding is currently allocated among the ten state higher education governing boards using a higher education funding model developed pursuant to H.B. 14-1319. This model allocates all funding for the governing boards based on three major categories: student stipends (undergraduate enrollment), outcomes (graduations, transfers, retention), and role and mission (flat funding by type of institution). Funding for "specialty education" programs such as the medical school, veterinary school, forest service, and agricultural extension programs, as well as with local district colleges and area technical colleges, is based on the average increase for all governing boards.

Over the years, staff briefings have highlighted various strengths and weaknesses of the model.

Strengths:

- It provides funding based on actual data: enrollment, degrees awarded, student retention, low-income Pell student enrollment and completion, and STEM completion. These elements are the focus of Colorado's Higher Education Master Plan and drive about 80 percent of the funding excluding "specialty education" programs.
- The results appear reasonable and provide fairly stable/smooth funding adjustments.
- It IS a model, and one that the General Assembly may choose to adjust based on policy considerations. Previously, the institutions annually negotiated how any new funds or reductions would be allocated. Now, the General Assembly has a tool for allocating or adjusting funding among the institutions based on policy considerations.

Weaknesses:

- Under the post-recession enrollment environment, large research institutions have been growing, while other institutions have not. The community colleges and access institutions such as Metropolitan State University feel that they should benefit more from the model. The model also has difficulty supporting smaller institutions that are size-constrained by their locations and other factors.
- While it is possible to adjust the model, it is not easy. Adding (or subtracting) funds in some parts of the model may have unexpected consequences affecting funding for other parts of the model.

- While the model is supposed to provide incentives for outcomes, it's not clear whether it can do this, due to the limited amount of funding available, the model's complexity, and because any institution's funding is affected by the performance of other institutions. Even an improved allocation model will not fully address these issues.

STATUTORILY-REQUIRED REVIEW OF THE HIGHER EDUCATION FUNDING MODEL

Senate Bill 19-095 (Todd and Holbert/Hansen and McKean) requires a five year review of the higher education funding formula be submitted November 1, 2019 containing changes to the funding formula and any recommendations for legislative changes. The Department is instructed to convene one or more meetings with interested parties, engage directly with the institutions, and strive for consensus among the institutions on any proposed changes.

The Joint Budget Committee also identified, in its Request for Information #1, some specific areas it hoped the Department would address in its review of the model. The request asked the Department to examine a range of issues including:

- Further rationalizing the "mission" and "specialty education" portions of the model ;
- Making the model more transparent and easier to use and understand;
- Aligning the model with the Higher Education Master Plan; and
- Exploring how the model can better address the needs of small institutions.

The full text of the request is attached.

DEPARTMENT DRAFT PROPOSAL

The Department's current proposal, as presented most recently to the Colorado Commission on Higher Education (CCHE) on September 5, 2019, is to return to a "base-plus" approach. This would mean scrapping all or most of the previous funding formula, which allocates **all** funding through a model and not simply an incremental adjustment.
Adopting the proposal would require statutory change and would likely involve rewriting all or most of Section 23-18-303, C.R.S., and related sections.

The current version of the model, as presented by the Department to CCHE, includes six components.

DRAFT DEPARTMENT FUNDING ALLOCATION MODEL - SEPTEMBER 2019		
MEASURE	PERCENTAGE OF ALLOCATION INCLUDED IN THE MODEL	DESCRIPTION
Operational Support	40%	Each governing board's base funding from the prior year is inflated by an equal percentage, then by various multipliers so Adams, Mesa, Metro, Western, FLC, and UNC receive much larger base increases.
Completions	20%	Resident student degrees awarded, with extra weight for each STEM (science & tech) degree, student who is Pell-eligible (low income), and student who is an underrepresented minority. Excludes degrees for non-resident students and retention data used in the past. Distributes funds similar to prior year distribution, even with these changes.
Equity-focused Enrollment	30%	Share of under-represented minority students and Pell-eligible (low income) students served by each governing board, weighted to emphasize the share of students at each governing board who fall in this category. For example, ASU has 1.6 percent of all Pell student enrollments but

DRAFT DEPARTMENT FUNDING ALLOCATION MODEL - SEPTEMBER 2019		
MEASURE	PERCENTAGE OF ALLOCATION INCLUDED IN THE MODEL	DESCRIPTION
		52 percent of its student population is Pell, so it receives 2.7 percent of the allocation under this component.
Graduation Rates and Improvements	5%	New addition to respond to Governor's Office. Based on a comparison with peers in graduation rates and trends in comparison to peers.
Concurrent enrollment - Gt Pathways (core courses) generated by high school students	5%	New addition to respond to Governor's Office. Reflects the credit hours attempted by high school students in concurrent enrollment. The vast majority of such credit hours are at the community colleges.
TOTAL	100%	Department proposes that this allocation apply only to incremental increases. It is in discussion with the Governor's Office regarding whether a portion of the base is also included

Department staff noted in their presentation to CCHE that the Governor's Office was interested in allocating more of the base through the model, but Department staff clearly did not favor this. They emphasized that significant swings in funding that would occur if any of the base were to be allocated using their proposed model.

CONCERNS ABOUT THE CURRENT DRAFT

Staff is most concerned about the following issues:

- **Complexity.** The Department's current proposal includes five separate funding elements, many of which are comprised of several smaller elements. For example, "equity focused enrollment" includes both a Pell-element and an underrepresented minority element. ***The Department's model is in many respects as complex as the current model,*** which includes six elements.

- **Potentially Very Little Impact on Funding.** Although the model retains great complexity, it potentially divides up only a very small amount of money based on these many complex elements. Although higher education funding has been increased by over 20 percent over the last two years, ***it seems possible that this model will divide up no more than 2.0 percent of the budget for FY 2020-21***.

- **No Provision for Addressing Funding Cuts.** This model has no provision whatsoever for how a funding reduction will be addressed. Given where the State is in the economic cycle, ***staff would advocate <u>against</u> adopting a model that does not include mechanisms for reducing, as well as increasing funding.***

- **Durability.** In general, it is not clear whether the Department is proposing this model as a one-off funding adjustment or whether it expects this model to last for five years. Staff is skeptical that a model can last that does not include any provisions for funding reductions.

Other areas of concern:

- Rationale for Base Funding /Timing of Related Information.
    - The draft model allocates 40 percent of any proposed increase (or any funding included in the model formula) for operational support. This is essentially a percentage adjustment to the base, with extra weight given to small institutions and access-oriented four years (Metro/Mesa). However, the rationale for the weights is not clear. If there is a large increase in funding or if base funding is reallocated, this appears to provide a disproportionately large increase for the smallest institutions without a sufficiently clear rationale.
    - The Department promises that it will be examining base funding, based on the results of a study that will be received during the legislative session. Staff believes any information received at that point in the year is unlikely to be very useful in determining funding allocations for FY 2020-21.

- Increases Specialty Education Programs, *i.e.*, programs funded at the state average: The Department's draft adds the Colorado School of Mines as a "specialty education program", *i.e.*, a program that will simply receive an increase at the state average. Since every state institution is special in some way, it's not clear why Mines should receive this separate treatment if others do not. In general, staff believes that *less* of higher education funding--not more--should be statutorily required to increase or decrease at an "average" rate.

- Colorado Opportunity Fund Stipend/Enrollment. The most significant change in the model is that it eliminates any funding based on the College Opportunity Fund (undergraduate enrollment). This has, until now, been 52.5 percent of funding allocated (apart from specialty education programs). However, as staff understands it, the Department does not propose to actually eliminate the stipend. Instead, the Department is apparently planning to continue the stipend as an administrative overlay, adding complexity but no content.

SOME STRENGTHS OF THE DRAFT

- **Simplification of Outcome Metrics.** The proposal eliminates funding related to outcomes for nonresident students. The current funding model includes some funding for degrees earned by these students at a discounted rate of 30 percent. This has little impact on total funding but increases the complexity of the model. The Department also proposes to eliminate metrics related to retention, with the goal of simplicity. This component has likewise been a small component, so this change will have little funding impact.

- **Greater Emphasis on Equity Gaps**. The proposal includes a process for allocating funds to institutions based both on the number of students in particular groups (low-income Pell, under-represented minorities) **and** the share of such students at an institution. This seems reasonable, given the weight given in the Higher Education Master Plan to closing attainment gaps and the additional expense that may be associated with serving particular student groups.

  BUT: Previous JBC's did not support funding based on numbers of underrepresented minorities, and staff has advocated for using first generation students (students first in their families to attend college) as a less politically-charged alternative. First generation has not been included in the draft model.

- **Stability.** By re-establishing base funding for the institutions, the model promises institutions potentially greater stability in funding, whatever happens to their enrollment. This is likely to be appealing to many institutions in an environment in which most large research institutions continue to grow and thrive and institutions that have traditionally served a less affluent population have faced declining enrollment.

  BUT: The Department's current model now ignores enrollment trends altogether. The advantage of this change may be less clear when the economy enters a recession and overall enrollment shifts dramatically toward access institutions. Should state funding have no relationship to where students are enrolled?

RECOMMENDATIONS

Staff believes some input from the Committee may be helpful to the Department and OSPB as they work to finalize their budget submission on November 1.

Committee members may simply wish to make observations on the mic, as staff recognizes that members may not be in agreement on how to approach the model. In addition, or alternatively if desired, staff can provide a draft letter making the following general points:

- **Any proposed statutory changes should be based on an enduring plan, including an approach that handles funding cuts, as well as funding increases.**

- **The General Assembly's ability to allocate funding among the governing boards should not be limited to potentially very small incremental increases in higher education funding.**

Note that based on current law, the Department should submit a proposal on November 1 that does not require statutory change (likely something based on the current funding model), as well as its proposal for any statutory change and a related revised model.

ATTACHMENT
JOINT BUDGET COMMITTEE HIGHER EDUCATION REQUEST FOR INFORMATION #1

Colorado Department of Higher Education, Colorado Commission on Higher Education, Administration -- The Department is requested to continue to work with the governing boards to improve the higher education funding model. The Department is requested to explore to the extent feasible and report on the following options and issues by November 1, 2019, as part of a review of the funding formula:

Further rationalizing the "mission" and "specialty education" portions of the model:

- Establishing mechanisms for determining when mission/base funding should be changed and establishing the process through which such changes will be considered.
- Considering whether statutory changes are warranted so that specialty education programs, local district colleges, and area technical colleges do not always increase or decrease in tandem with average funding but may instead receive consideration based on policy goals, performance, or other factors.

Making the model more transparent and easier to use and understand

- Simplifying the funding formula and identifying any statutory changes that may be required to accomplish this.
- Ensuring that it is clear to participating institutions and the General Assembly how an institution's efforts to achieve policy goals (e.g., graduate more Pell-eligible students) will benefit them in the model. For example, providing a demonstration tool that shows the impact on an institution's funding from increasing its outcomes relative to other institutions.
- Developing tools so that, when desired, increases or decreases may be applied to certain portions of the model without affecting other portions of the model.

Aligning the model with the Higher Education Master Plan

- Incorporating weighting for first generation and other underrepresented students in the model.
- Considering weighting relating to teaching degrees, in light of teacher shortages.
- Considering greater weighting on certificates.
- Considering greater weighting on completions for Pell-eligible students.

Exploring how the model can better address the needs of small institutions

- Examining whether changes to the mission or performance portions to the model are appropriate to help these institutions remain viable. This may include identifying benchmarks for minimum funding required for such institutions.