

TOPIC: FUNDING ALLOCATION FORMULA AND NOVEMBER 2 BUDGET REQUEST

PREPARED BY: JASON SCHROCK, CHIEF FINANCIAL OFFICER; EMILY BURNS, BUDGET DIRECTOR; EMMA FEDORCHUK, LEAD FINANCE ANALYST

I. SUMMARY

This action item provides approval for the annual General Fund request, student financial aid, funding allocations to governing boards, and tuition recommendations for FY 2021-22. The Governor's request for state-supported institutions of higher education and other budget requests for the Department of Higher Education are not public until the entire executive budget request is submitted to the legislature on November 2, 2020. Recognizing that the Governor's request is not public, staff will provide potential budget scenarios for the Commission to evaluate at the meeting.

II. BACKGROUND

Statute requires the Colorado Commission on Higher Education to annually submit (1) a budget request that includes the following: allocations to governing boards, state financial aid funding, and tuition policy recommendations.

Annual Budget Request

The annual budget request is developed by the Department and the Office of State Planning & Budgeting (the Governor's budget office) to provide annual funding for higher education. Included in the budget request are the state funding allocations to each governing board pursuant to the allocation formula; the level of state financial aid investment requested; and tuition policy recommendations.

State Financial Aid

Section 23-3.3-103, C.R.S., requires the level of state financial aid to increase at the same overall percent as the increase in state funding for higher education. Because of the 58 percent reduction in state funding adopted in the state budget for the current fiscal year (FY 2020-21), funding for higher education is likely to experience a large percentage increase for FY 2021-22. As a result, there will likely need to be a legislative change to suspend the requirement that appropriations for state financial aid increase at the same rate as the percentage increase in state funding for institutions.

Besides the elimination of state funding for merit aid for FY 2020-21, state financial aid was held flat from FY 2019-20 levels in the state budget for FY 2020-21. Thus, a large percentage increase in state financial aid for FY 2021-22 above FY 2020-21 levels would not be viable due to the state's continued challenging budget conditions. Staff is unable to discuss the specific funding level of state financial aid contemplated in the budget request at this time until the Governor's budget request is submitted to the legislature on November 2, 2020.

The types of student financial aid include the following: undergraduate and graduate need-based aid (colloquially referred to as the Colorado Student Grant, and the Graduate Grant, respectively), state work-study aid, and merit aid. State funding for merit aid was eliminated by the legislature in the state budget for FY 2020-21.

The Department allocates the various types of student financial aid to individual governing boards based on CCHE approved methodology. In 2013, Colorado implemented a new methodology for allocating state need-based financial aid to the public institutions of higher education. The model provides an incentive for timely completion by providing a set funding amount to institutions for each Pell-eligible student by grade level. This amount increases as students move to a new grade level, with the highest allocation being awarded to senior-level students. Thus, the model incentivizes institutions to retain and complete Pell-eligible students in a timely manner.

Higher Education Funding Allocation Formula

HB 20-1366 established a new funding allocation model for allocating state appropriations to public higher education institutions. FY 2021-22 is the first year in which this new model is required to be used. Attachment A (formula one-pager) contains further details on the model.

Tuition Policy

Under current law, tuition revenue is appropriated at all state institutions except the Colorado School of Mines. General Fund and tuition spending authority are the funding sources utilized in the state budget to help cover the budget needs of the state's institutions' core educational operations, commonly called Education and General (E&G) expenses. Therefore, there is a direct link between state General Fund investment and the tuition rates. An increase in General Fund investment generally results in lower tuition increases, while a decrease in General Fund investment can result in higher tuition increases.

In recent years, resident tuition rate increases have been capped in the state budget. Because the budget request is confidential, Department staff is unable to identify the level of a specific cap on tuition increases that is contemplated in the budget request. However, the Governor's office has asked that the Department develop criteria that the Commission could consider when evaluating an institution's decision to exceed the cap on increases in resident tuition. The Department recommends that any institution seeking an increase above the cap demonstrate how the proposed increase: 1) results in tuition levels that remain competitive with similar peer institutions; 2) does not place undue financial strain on resident students; 3) is expected to affect enrollment levels; and 4) what alternatives outside of the tuition increase were considered but were not deemed viable.

III. STAFF ANALYSIS

The Governor's request for state-supported institutions of higher education and other budget requests for the Department of Higher Education are not public until the entire executive budget request is submitted to the legislature on November 2, 2020. Recognizing that the Governor's request is not public, staff will provide potential General Fund scenarios for the Commission to evaluate at the meeting.

IV. STAFF RECOMMENDATIONS

Staff recommends CCHE approve the General Fund request, funding allocation approach, and corresponding tuition recommendation based on the scenarios staff will provide at the meeting.

V. STATUTORY AUTHORITY

Budget Request:

C.R.S. § 23-1-105(8)

The funding recommendations made by the commission for state-supported institutions of higher education and by the executive director for the divisions of the department of higher education shall be made to the governor and to the general assembly as part of the budget request for the department of higher education and shall be submitted in accordance with the budget procedures of part 3 of article 37 of title 24, C.R.S., and in conformance with section 24-75-201.1 C.R.S.

Higher Education Funding Allocation Formula:

C.R.S. § 23-18-306

(1) (a) For the 2021-22 state fiscal year and each state fiscal year thereafter, the department and commission shall submit a budget request by November 1 of each year that include:

(i) a detailed description of requests for additional ongoing and temporary funding pursuant to section 23-18-303.5 (2) and (3) and recommendations for additional funding, if any; and

(ii) recommendations for:

(a) changes in the amount of performance funding pursuant to section 23-18-303.5 (4), if any;

(b) the percentage allocation of performance funding among the performance funding metrics specified in section 23-18-303.5 (4)(b);

(c) additional funding for fee-for-service contracts pursuant to section 23-18-304, if any; and

(d) tuition spending authority for the state institutions of higher education.

Tuition Recommendation:

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.

Financial Aid:

C.R.S. § 23-3.3-102

(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.

ATTACHMENT(S):

Attachment A: Formula One-Pager