



COLORADO

**Colorado Commission on
Higher Education**

Department of Higher Education

Report on Implementation Status of H.B. 14-1319

Overview

The passage of HB 14-1319, in May 2014, (1) eliminated the existing funding structure for allocating state General Fund dollars to public institutions of higher education, and (2) tasked the Colorado Commission on Higher Education (CCHE, the Commission) and the Colorado Department of Higher Education (CDHE, the Department) with developing a new base funding allocation formula and tuition policy recommendations for public institutions of higher education.

The legislation also requires CCHE to submit an annual report, by July 1 of each year from 2016 through 2020, detailing the implementation status, including any recommended changes to statute [C.R.S. 23-18-306 (4)]. CCHE issues this 2016 report in compliance with the annual reporting requirement.

Key Findings

Fiscal Year (FY) 2016-17 is only the second year that allocations to Colorado's public institutions of higher education will be determined through the new funding allocation formula developed as a result of HB 14-1319. As such, the full impact of the legislation cannot be fully evaluated until more time has passed. Nevertheless, a few key observations have been identified:

- CCHE does not recommend any changes to statute at this time;
- The funding allocation formula can operate effectively in increase, cut, and flat funding environments;
- More evaluation is needed to ensure adequate support for rural and low enrollment institutions;
- More evaluation is needed to determine if the tools provided by HB 14-1319 can be used to close the Attainment Gap in Colorado; and,
- More time and evaluation are needed to determine if the funding allocation formula is impacting institutional behaviors to achieve the legislation's policy intentions, to increase the number of students enrolled, transferred, retained, and completed

Summary of Implementation Status

As stated earlier, HB 14-1319 eliminated the existing funding structure for how state General Fund operating dollars were allocated to public institutions of higher education. As a result of the work done by CCHE and the Department to implement the requirements of the legislation, a new base funding allocation formula was employed beginning in FY 2015-16.

Among other things, the HB 14-1319 specifically required:

- The project be completed by January 15, 2015 (less than eight months from the time it was signed into law);
- CCHE engage "interested parties" to develop the new allocation method;
- Funding be awarded to institutions based on: Role and Mission Factors, which offset the cost of providing programs, while acknowledging the uniqueness of the individual

institution, as well as Performance Metrics, which capture the number of students transferred, retained, and conferred; and,

- CCHE provide tuition policy recommendations to the General Assembly by November 1, 2015.

Beginning in June 2014, an extensive statewide outreach process was undertaken. Four committees comprised of stakeholders and policy leaders were convened to work on specific portions of the overall task, and a new funding allocation formula was developed. CCHE approved the final version for FY 2015-16 and submitted it to the JBC in January 2015. The JBC modified the initial version of the formula slightly before using it to determine Governing Board allocations in the FY 2015-16 Long Bill.

Because the development of the funding allocation formula was done in such a short time frame, the Department knew that further evaluation and testing would be needed. In addition, the JBC formally requested through a Request For Information (RFI) that CCHE evaluate the key metrics within the formula. Following the implementation in FY 2015-16, the Department spent the summer of 2015 working again with higher education stakeholders to make the formula more intuitive, while also adding measures to ensure sustainability in times of decreased funding. As a result of this work, and after numerous variations, the Department put forth a revised formula for FY 2016-17, which addressed the JBC's concerns and achieved the Department's and stakeholders' goals of being simple, sustainable, and intuitive.

The Department's annual budget request for FY 2016-17 contained allocations to Governing Boards based on the revised formula, along with the statutorily required tuition policy recommendations. JBC staff analyzed and made recommendations on the budget through a series of Committee hearings from December through March. The Committee hearings culminated in the March figure setting process, which included additional modifications by the JBC to the allocation formula for FY 2016-17. These modifications, and the resulting allocations to Governing Boards, were ultimately approved by the General Assembly.

A detailed description of the FY 2015-16 allocation formula, the FY 2016-17 allocation formula, and the tuition policy recommendation can be found in appendices A, B, and C.

Discussion of Key Findings

Because FY 2016-17 is only the second year of implementation of the new funding allocation formula, more time is needed before the full impact of the change can be evaluated. Nevertheless, five key findings have been identified.

1. NO CHANGES TO STATUTE ARE RECOMMENDED AT THIS TIME

The funding allocation formula was developed in 2015 and has had several modifications made to it by the Department, in conjunction with stakeholders, and the JBC. In addition, changes to statute were enacted during the 2015 session and 2016 session to address technical challenges with the legislation.

HB 15-1254 clarified how “Total State Appropriations” are to be calculated; and, 16-1350 made technical changes to provide specialty education providers with the same transfer authority as the other Governing Boards, in order to reconcile the funding between the College Opportunity Fund (COF) stipend and fee-for-service contracts.

CCHE, the Department, and stakeholders believe that the formula must remain constant to evaluate the metrics within and determine the effect on stated policy goals.

2. DURABILITY OF THE FUNDING ALLOCATION FORMULA

Drawing from the experiences of other states, the success or failure of performance/outcomes based funding formulas has been determined by the funding environment. Meaning that, performance/outcomes-based funding formulas, which were used in times of a budget increase, were later abandoned in a flat or declining funding environment.

In just two years, the formula developed in response to HB 14-1319 has been found to work in varying scenarios. This was demonstrated in FY 2015-16, when higher education received an 11% increase in general fund investment, and again in FY 2016-17, when the Governor proposed a \$20 million reduction, but the General Assembly acted to hold funding flat. This is notable because, in two years of funding, the percentage point change in funding for governing boards has ranged from 5% to 18% (see following table).

	FY 2014-15 (Pre-1319)	FY 2016-17 (Under 1319)	% Change
Adams State	\$12,837,288	\$14,076,360	10%
Colorado Mesa	22,027,251	24,280,729	10%
Metropolitan State Univ. of Denver	43,681,193	51,415,001	18%
Western State	10,585,447	11,534,927	9%
Colorado State Univ. System	121,978,483	134,518,307	10%
Ft. Lewis College	10,594,604	11,481,200	8%
Univ. of Colorado System	167,097,810	186,432,686	12%
Colorado School of Mines	18,669,456	20,639,050	11%
Univ. of Northern Colorado	37,357,027	39,038,234	5%
Community College System	137,465,925	153,462,581	12%
Governing Board Total	\$582,294,484	\$646,879,075	11%

3. MORE EVALUATION IS NEEDED TO ENSURE ADEQUATE SUPPORT FOR RURAL AND LOW ENROLLMENT INSTITUTIONS

Colorado as a whole is recognized as having a strong economy, a low unemployment rate, and a highly educated workforce. However, many residents continue to have limited access to postsecondary education and, as a result, significantly less mobility and economic opportunity. This is especially true in the rural parts of state. Institutions such as Adams State University, Western State Colorado University, and Trinidad State College provide access to postsecondary education to residents of remote areas.

Because rural institutions have different roles and missions than their larger, urban counterparts, they tend to attract a smaller pool of students. Yet despite their relatively low enrollment, rural institutions fill a critical void by enrolling mostly local resident students who may not otherwise have access to, or achieve, postsecondary educational attainment.

Additionally, rural institutions are *essential* drivers of local and regional economies. For example, according to a December 2015 Economic Impact Analysis and Report, in FY 2014-15 Adams State University, located in the San Luis Valley, one of the poorest rural communities in Colorado, is estimated to have had a \$78,078,185 Total Economic Impact on the regional economy and an \$111,820,411 Total Economic Impact on the state as a whole.¹

Rural institutions are well-suited to mitigate and manage the growing educational access disparity between Colorado's urban core and rural periphery. However, because statute dictates that a minimum of 52.5% of General Fund operating investment be allocated by enrollment (via the College Opportunity Fund), these institutions face a distinct disadvantage unless a larger state subsidy (base amount) is granted to low-enrollment, rural institutions. Absent a specific adjustment the financial health of small rural institutions would be at risk, creating additional barriers for many residents in accessing post-secondary education.

4. MORE EVALUATION IS NEEDED TO ADDRESS THE ATTAINMENT GAP

Further evaluation by the Department and stakeholders is needed to determine how the incentives provided in HB 14-1319 can best be employed to help close the "Attainment Gap" in Colorado.

The concept of a postsecondary education "Attainment Gap" among low-income, first generation, and traditionally underserved students (defined as historical disparities among certain populations) is a heavily researched phenomenon. Closing this gap is widely recognized as a wildly important goal of higher education finance policy in

¹Adams State University Economic Impact Analysis and Report, December 2015.
<https://www.adams.edu/president/img/working%20document%20asu%20economic%20impact.pdf>

Colorado and across the nation. HB 14-1319 seeks to address this growing disparity by: 1) off-setting the added cost of educating Pell-eligible (low-income), first-generation, and underserved students, and 2) incenting institutions to graduate such students. Among other states using higher education performance-based funding allocation formulas, Colorado has the largest incentive for graduating Pell-eligible students.

However, incenting completion of low-income students is far from a silver bullet: traditionally underserved students are not always Pell-eligible and low income (Pell-eligible) students are not always first generation college students or traditionally underserved populations. To make meaningful progress in closing this persistent disparity, additional General Fund dollars need to be loaded into the formula on the front end so that it provides a larger incentive for institutions to enroll and complete underserved, low income and first generation students.

5. MORE TIME AND EVALUATION ARE NEEDED TO DETERMINE IF THE FUNDING ALLOCATION FORMULA IS PRODUCING INTENDED RESULTS

The legislative intent of HB 14-1319 asserts that Colorado's limited state resources be used in a way that provides incentives for state institutions of higher education to achieve the policy goals adopted by the General Assembly and the Colorado Commission on Higher Education. Achieving complex policy goals, such as those outlined in HB 14-1319, requires investments of both time and money. As performance-based funding allocation formulas become popular methods for aligning states' policy goals with higher education funding, it becomes apparent that time and general fund investment are equally as important as sound metrics and fair, honest evaluation. Thirty-two states now have a funding formula, policy, or formula in place to allocate a portion of state General Fund dollars based on various metrics and indicators, though Colorado is unique in that **all** operating dollars are allocated through a funding allocation formula.

Tennessee, an early adopter of performance-based funding, implemented their allocation formula in 2010 and only recently completed a comprehensive evaluation of its first five-year cycle. This review process identified updated outcomes and focus populations for the next five-year cycle. It also established a grant program called the Institutional Outcomes Improvement Fund (\$800,000) as an additional funding source, beyond general fund operating dollars and a necessary tool to aid institutions in growing outcomes and student success.²

Much like Tennessee, here in Colorado, a second version of the funding formula has been developed incorporating refined metrics and identifying areas in need of additional evaluation. So, at this two-year milestone, it is important to understand that

² <https://www.tn.gov/thec/news/42962>

<http://www.tn.gov/assets/entities/thec/attachments/1-Outcomes Based Formula Narrative - for website.pdf>

performance funding is a dynamic process that requires significant investments of time and General Fund dollars so that the intended outcomes and policy goals can be evaluated and achieved.

Conclusion

The implementation of HB 14-1319 has been a significant undertaking. While areas of adjustment and refinement have been identified, it is vital to understand that consistent investment and predictability within the formula's components are paramount to the formula's overall success. In the two years that the funding allocation formula has been operational, allocations have increased (FY 2015-16), then were held constant (FY 2016-17).

While General Fund investment is the single most important factor in the success of the policy goals set forth in the legislation, time is also crucial. The legislative intent of HB 14-1319 recognizes this by calling for a funding **formula** that is both "consistent and predictable." So, at this two year juncture, we find that more time and evaluation are absolutely necessary before we can evaluate the overall impact of the formula on incenting institutional behaviors.



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APPENDIX A



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HB 14-1319

Funding Allocation Model

Final Report

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January 15, 2015

Members of the Colorado General Assembly:

In May 2014, the Colorado General Assembly and Governor John Hickenlooper tasked the Colorado Commission on Higher Education (CCHE) and the Colorado Department of Higher Education (CDHE) with developing a new performance-based allocation model for the State's operational funding for public institutions of higher education. Given just over eight months to lead the efforts and accomplish this goal, the CCHE, all of the Governing Boards of the public institutions of higher education, and the CDHE deliver to you a completed, unanimously agreed-upon funding allocation model that reallocates base funding around three primary policy priorities:

- Fund enrollment through the College Opportunity Fund (COF) Stipend;
- Honor each institution's unique role and mission, including access to higher education in the rural areas of our state; and
- Reward performance - specifically retention and completion, including transfers from a community college to a 4-year institution.

We embarked on this project with optimism but also great trepidation. Colorado is near the bottom of the nation in its funding for higher education, so the stakes were incredibly high as we worked to build consensus and collaboration to reallocate base funding in a way that aligned with state policy goals. At CDHE, we committed ourselves to a public, transparent, inclusive process to create the new formula and agreed with our stakeholders to create a simple, clear formula that demonstrated direct links to the policies of the CCHE Master Plan and those identified in statute. Not only did we accomplish this goal but the public, transparent, and inclusive process developed for this project will continue as we further examine the funding allocation model and evaluate the need for future refinements but also its impact on meeting state goals and the work of the CCHE to develop tuition policy, as required by HB 14-1319.

Importantly, the process of creating this new model opened up difficult policy discussions. Across the nation, the higher education financial model is becoming unacceptable as reductions in state funding lead to high tuition which in turn leads to high levels of student debt. It is in this context that we must wrestle with and address difficult issues such as affordability, completion, closing the attainment gap, and creating better linkages to our K-12 and workforce partners. We all have the same aspiration - to create an affordable, accountable and high-quality public higher education system for the State of Colorado that is accessible to all Coloradans without regard to their geographic location or their financial means. Creating this system will help us reach the Master Plan goal that 66% of Coloradans have a postsecondary credential by 2025 to support our future workforce needs.

Respectfully Submitted,

A handwritten signature in cursive script that reads 'Garcia'.

Lt. Gov. Joseph A. Garcia,
Executive Director of the Colorado Department of Higher Education

Executive Summary

In response to HB 14-1319, the Colorado Commission on Higher Education (CCHE) developed and recently adopted a new base funding formula to allocate state general fund dollars among the State's public institutions of higher education.

Through this model, which is unanimously supported by both CCHE and all of the affected governing boards, base funding will be allocated according to the following components:

- **College Opportunity Fund Stipend** - Provides funding for the number of Colorado resident students being served by an institution.
- **Role & Mission** - Helps to offset the costs incurred in providing undergraduate, graduate and remedial programs to students in a manner that recognizes who the institution serves, how it serves students and the environment in which it serves students.
- **Performance** - Rewards institutions for the number of students the institution transfers, retains, and confers degrees/certificates. In addition, rewards performance in a manner that recognizes institutional performance in relation to an institution's size and capacity.

Over the past eight months the Colorado Department of Higher Education (CDHE) and CCHE led an inclusive and transparent process to create and finalize a model that is **unanimously supported** by all affected governing boards. Included in this process and the decision making were legislators and members of the Joint Budget Committee; current and former higher education commissioners; business leaders; non-profit organizations; leaders of state higher education institutions; and advocates representing students, parents and faculty.

These individuals served as members of our Public Education & Outreach Team, Funding Allocation Model Expert Team (FAMET), Executive Advisory Group (EAG) and participated in a monumental effort to develop and implement a higher education funding model that is more transparent and understandable for Colorado taxpayers; improves predictability for institutions to engage in long-term financial planning and tuition setting, with a goal of ensuring both accessible and affordable higher education for residents; meets the directives of the legislation; and, harmonizes with the statewide goals for higher education as articulated in [CCHE's Master Plan - Colorado Competes, A Completion Agenda for Higher Education](#).

The new base funding allocation formula, adopted by CCHE on December, 4, 2014, is a balance of the policy goals of CCHE; the legislative directives of HB 14-1319; and the feedback from the public education and outreach activities conducted through the project process. Further, it is based upon national best practices in higher education financing.

Introduction

HB 14-1319 was passed by the Colorado General Assembly and signed by the Governor in May 2014. The bill eliminated the existing funding structure for how state General Fund dollars are allocated to public institutions of higher education as of Fiscal Year 2015-16, and directed the Colorado Commission on Higher Education (CCHE) to develop and adopt a new base funding allocation formula for these funds within specified parameters.

The legislation specifically required:

- (1) The project to be completed by January 1, 2015, less than eight months from the time it was signed into law;
- (2) CCHE to engage in a facilitated process with “interested parties” and to incorporate the feedback into the final product; and, ultimately,
- (3) Funding be awarded to the colleges and universities based on Role and Mission Factors - offsetting the costs of providing programs, while acknowledging the uniqueness of the individual institution - as well as Performance Metrics - number of students transferred, retained, and conferred.
- (4) CCHE provide tuition policy recommendations to the General Assembly by November 1, 2015.

This report provides a summary of the HB 14-1319 project and adopted model and includes:

- A History of Higher Education Funding in Colorado
- The HB 14-1319 Project Process
- An Overview of the CCHE Adopted Model
- Next Steps and Version 2.0

HB 14-1319 represents a significant change in how the State funds higher education. Previously, funding for institutions was based on historical allocations and available funds rather than specific state policy goals. HB 14-1319 dramatically changed that by requiring that the allocation of state funding be based on common, measurable, and updatable factors and metrics.

To develop and implement the model, the Colorado Department of Higher Education (CDHE) contracted with two vendors. The Keystone Center, in conjunction with Engaged Public, was selected for the public education and outreach facilitation. The National Center for Higher Education Management Systems (NCHEMS) was selected for the cost driver analysis and construction of the base funding allocation model. In addition, CDHE created an intentional project structure to implement the legislation that consisted of three subject matter expert teams. These teams worked with CDHE, CCHE and the vendors directly on the three essential aspects of this project: public

engagement and outreach; a study examining what is at the root of postsecondary costs; and, the funding model itself.

Over the past eight months CDHE and CCHE led an inclusive and transparent process to create and finalize a model that is unanimously supported by all affected governing boards. Comprised of three components – the College Opportunity Fund Stipend, Role & Mission and Performance – the **CCHE Funding Allocation Model** balances policy goals of CCHE, the legislative directives of HB 14-1319, and the feedback from the public education and outreach activities conducted by CDHE with Keystone and Engaged Public. Specifically, the new funding model will incent:

- **Increased postsecondary credential attainment** by rewarding institutions for the credentials granted, including a bonus for STEM and health care credentials;
- **Improved student success and outcomes** by allocating funds to offset the costs of providing basic skills education and rewarding student retention/progress;
- **Increased success for low-income and underrepresented minority students;** and
- **Continued access to affordable higher education in all geographic areas** of the state by rewarding the performance of smaller/rural institutions and the role and mission of all of the State’s institutions of higher education.

Moving forward, CDHE and CCHE, in consultation with the interested parties, will continue to refine and evaluate the model to ensure that the indicators, methodology, and funding allocation processes continue to align with the policy goals of CCHE, the Governor, and the General Assembly.

This report serves as an overview of the **CCHE Funding Allocation Model**, which has the support of Colorado’s public college and university presidents. A letter expression support of the model from the CEOs of Colorado’s governing boards can be found in Appendix A. This report also provides a brief history of higher education funding in Colorado and outcomes/performance based funding for higher education across the states; details the process and guiding principles used to reform higher education funding; and, includes a detailed summary of the adopted model, and a discussion of a process to make any needed modifications to the model in future fiscal years.

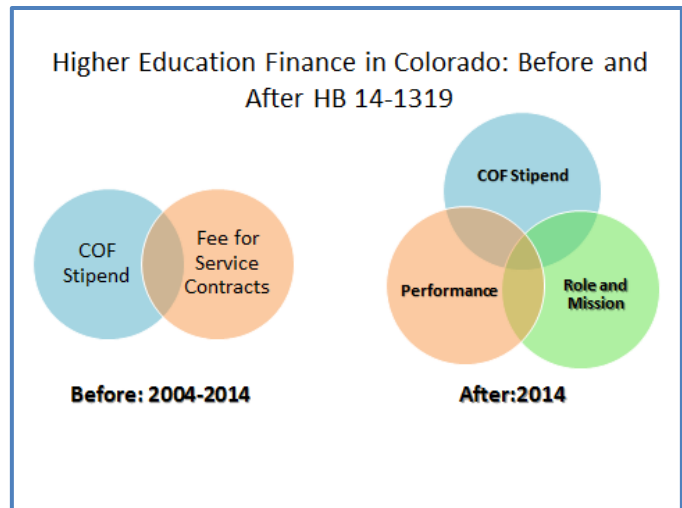
Higher Education Funding in Colorado

The passage and implementation of HB 14-1319 represented a significant change in how the State allocates funds to public institutions of higher education. Previously, funding for institutions was based on historical allocations, with annual adjustments based on available funds rather than specific state policy goals. The legislation dramatically changes this by requiring that funding be based on common, measurable, and updatable factors and metrics.

According to the Joint Budget Committee Higher Education Briefing Document, Colorado has gone through numerous higher education funding methods over the decades. At one time, funding was determined through detailed line items. By the early 1990s, appropriations for each governing board were consolidated into single line items. However, CCHE and the General Assembly still applied budget adjustments based on a mandated cost model, in which various costs and revenue components were analyzed for each governing board. By the mid-1990s, the methodology changed again to an inflation-based approach, in which governing boards received increases based on the Consumer Price Index (CPI) plus changes in enrollment. Additional adjustments were addressed through decision items or separate legislation including a performance based funding component added in the early 2000s.

In 2004, the General Assembly moved the State to the student stipend and fee for service model in effect through FY 2014-2015. Known as the College Opportunity Fund (COF), the intent of this model was for money to “follow the student” through a stipend payment, along with a mechanism for purchasing various services through Fee-For-Service (FFS) contracts. Higher education institutions no longer received direct state funding through General Fund appropriations. Annual reappropriated funds made in the Long Bill to the COF trust are designated with a split between stipend payments and FFS contract payments in the Long Bill letternote text. Staff and institutions have historically referred to stipends as COF and contract payments as FFS. For the last decade, this approach continued to focus on the total funding needed per institution through the combination of fee-for-service and stipend moneys. In effect, this has been a base plus/minus approach.

HB 14-1319 represents a significant change in how the State allocates funds to public institutions of higher education. The legislation eliminated the negotiated fee-for-service/COF approach and required it be replaced by a formula that funds the fee-for-service contracts based on achieving state goals, while working within the structure of the existing College Opportunity Fund. The COF stipend has been retained with the addition of the new fee-for-service contracts containing the role and mission and performance funding components.



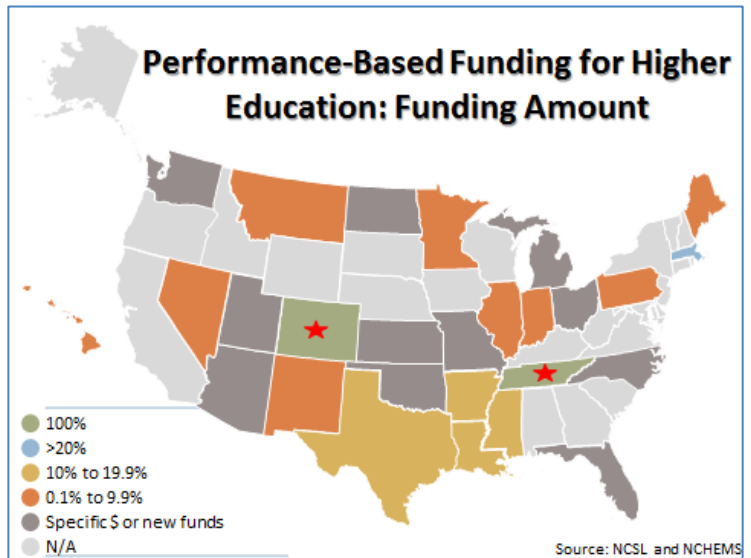
A National Shift in Higher Education Funding

Colorado is not the only state that has transitioned to an outcomes- or performance-based funding method. Funding formulas that allocate some amount of funding based on performance and outcomes indicators are gaining traction across the nation.

Although this idea is not new, states are seeking ways to tie institutional performance and outcomes to funding.

According to the National Conference of State Legislatures (NCSL), at least 25 states have funding allocation models in place disbursing state moneys for higher education, at least in part, based on performance. A handful of other states are currently in the process of developing models based on similar premises. However, there are differences in how the formulas are derived and applied in the various states. Among the states that have moved to some type of performance-based methodology, most allocate to both two-year and four-year institutions based on performance, while others tie performance funding only to a subset of institutions. For example, Massachusetts, Texas, and Washington only fund their two-year institutions through a performance-based formula. Further, Arizona, Florida, and Pennsylvania only fund their four-year institutions in this manner. Colorado will fund both two-year and four-year institutions through the new performance-based funding allocation model.

Additionally, Colorado will allocate the entire state appropriation for most state institutions of higher education through the new performance-based funding model with specialty education programs, such as medical and veterinary medicine, and local district junior colleges and area vocational schools being treated in a block grant fashion. In comparison, most states who have implemented a performance-based approach provide a base allocation and then distribute only between 5% and 25% through performance funding. The map to the right illustrates the percentage of money each state flows through their performance model. Some states identified certain dollar amounts or are allocating only the increase in state funds over the previous year based on performance.



Based upon the experiences of other states’ performance-based funding models, the Department and CCHE sought to align its work with best practices from around the country, from organizations including the National Conference of State Legislatures, National Governors Association Center for Best Practices, the Education Commission of the States, the National Center for Higher Education Management Systems (NCHEMS), HCM Strategists, and others.

HB 14-1319 Project Process

To successfully implement HB 14-1319, CDHE established a project structure and process with purpose and intent - to meet the directives of the bill; ensure that diverse Colorado voices are heard and incorporated into the conversation; *and* achieve a quality end product that can be embraced as a sound mechanism for state funding of public institutions of higher education while meeting the priorities and goals of Colorado.

PROJECT PRINCIPLES

CCHE’s July 2014 retreat was used as the launch for the HB 14-1319 Project. Members of the Executive Advisory Group (EAG) were invited to participate in the presentations and discussions during the first day.

Through a facilitated conversation, managed by The Keystone Center, EAG members formulated a set of project principles to guide the discussions and decisions throughout the project. These principles were further refined and then formally recommended by the EAG and adopted by the CCHE at subsequent meetings.

HB 14-1319 PROJECT PRINCIPLES

In order to ensure Colorado higher education is of value, affordable, accessible, and high quality; and, seen as a public good, all decisions regarding the development of this new funding formula should:

- Align project outcomes with Master Plan goals.
- Promote clarity, simplicity and predictability in the allocation of state funds to public institutions of higher education.
- Evaluate Colorado public institutions of higher education on accurate and comparable data.
- Respect the individual role and mission purposes of each Colorado public institution of higher education with regard to operational authority and flexibility.

The bill specifically required this to be done in a transparent manner in consultation with “Interested Parties”, which are defined in the bill as including but not limited to *“the governing boards of institutions, institution administrators, higher education advocates, students, faculty, nonprofit education organizations, and members of the business community.”*

CDHE underwent a very rigorous Request for Proposal (RFP) process to select the two vendors for the project, following the Department of Personnel and Administration rules and guidelines. The Keystone Center, in conjunction with Engaged Public, was selected for the public education and outreach facilitation. The National Center for Higher Education Management Systems (NCHEMS) was selected for the base funding allocation model construction.

In addition, the HB 14-1319 project structure consisted of three subject matter expert teams that worked with the CDHE and the vendors directly on the three essential aspects of this project: public engagement and outreach, a study examining what is at the root of postsecondary costs, and the funding allocation model itself. The following is a brief description of the subject matter expert teams:

Public Education & Outreach Team

The focus of this Team was to (1) help project participants and leaders understand the higher education priorities of the stakeholders across the state and how these priorities should impact how consideration is given to the weighting of the funding model metrics and factors within the formula, and (2) educate the public about the role of higher education and its importance to our state and our economy.

The Public Education and Outreach Team was made up of the following members:

- Luis Colon - Business Consultant, Xcelente Marketing - *Business Advocate and CCHE Representative*
- Wade Buchanan - President, Bell Policy Center - *Non-Profit Organization*
- Mike Martin - Chancellor, Colorado State University System - *Research Institutions*
- Greg Salsbury - President, Western State Colorado University - *Four-Year Institutions*
- Millie Hamner - State Representative, Chair House Education Committee, Colorado General Assembly - *Legislator*
- Taryn Flack - *Student Representative*
- Ruth Annette Carter - *Parent Representative*
- Jeff London - MSU, Denver - *Faculty Representative*
- Diane Hegeman - Arapahoe Community College - *Provost Representative*
- Inta Morris - Chief Advocacy & Outreach Officer, *CDHE*

Funding Allocation Model Expert Team (FAMET)

The heart of the charge in HB 14-1319 is the creation of a new funding allocation model. FAMET was charged with developing a funding allocation model that balanced the policy goals of CCHE, the legislative directives of HB 14-1319, and incorporated the feedback from the public education and outreach activities.

The Funding Allocation Model Expert Team was made up of the following members:

- Hereford Percy - Commissioner, CCHE - *Business Advocate and CCHE Representative*
- Nancy Todd - State Senator, Senate Education Committee, Colorado General Assembly - *Legislator*
- Alexis Senger - Chief Analyst, Office of State Planning and Budgeting - *Governor's Representative*
- Jeanne Adkins - President Strategic Options and Solutions, Colorado Mesa University
- Brad Baca - Executive Vice President, Chief Operating Officer, Western State Colorado University
- Ed Bowditch - Legislative Liaison, Fort Lewis University
- Steve Kreidler - Vice President of Administration, Finance and Facilities, Metropolitan State University of Denver
- Bill Mansheim - Vice President for Finance and Government Relations, Adams State University
- Michelle Quinn - Senior Vice President, Chief Financial Officer, University of Northern Colorado
- Todd Saliman - Chief Financial Officer, University of Colorado
- Rich Schweigert - Chief Financial Officer, Colorado State University

- Mark Superka - Chief Financial Officer, Colorado Community Colleges System
- Kirsten Volpi - Executive Vice President for Finance and Administration, Colorado School of Mines
- Dr. Beth Bean - Chief Research Officer, CDHE

Cost Driver Analysis Team

While not specifically called for in the legislation, this project was incorporated to inform the other aspects of the HB 14-1319 implementation and address future decisions to be made regarding funding and tuition policies. The Team is scheduled to conclude their work by June 2015.

The Cost Driver Analysis Team is comprised of:

- Patty Pacey - Commissioner, CCHE - *Business Advocate and CCHE Representative*
- Jessie Ulibarri - State Senator, Colorado General Assembly - *Legislator*
- Alexis Senger - Chief Analyst, Office of State Planning and Budget - *Governor's Representative*
- Jeanne Adkins - President Strategic Options and Solutions, Colorado Mesa University
- Julie Feier - Associate Vice President of Finance and Administration, Western State Colorado University
- Peter Han - Chief of Staff and Vice-President of External Relations, Colorado School of Mines
- Heather Heersink - Budget Director, Adams State University
- Chad Marturano - Senior Director of Budget and Strategic Planning, University of Colorado System
- George Middlemist - Associate Vice President of Administration and Finance and Controller, Metro State University
- Bridget Mullen - Director of Budget and Finance, Colorado State University System
- Steve Schwartz - Vice President of Finance and Administration, Fort Lewis College
- Mark Superka - Chief Financial Officer, Colorado Community College System
- Cindy Thill - Special Assistant to the Senior Vice President for Administration, University of Northern Colorado
- Diane Duffy - Chief Financial Officer, CDHE

Executive Advisory Group (EAG)

The subject matter expert teams worked at the granular level and reported to the Executive Advisory Group (EAG) - an advisory group comprised of legislators, current and former higher education commissioners, business leaders, leaders of state higher education institutions, and advocates for students, parents, faculty and provosts.

The EAG was charged with digesting the work that the Expert Teams had conducted; helping to resolve any conflicts that may have arisen through the granular process; providing guidance, as necessary, to the expert teams for additional issues to take into consideration; and, ultimately making a clear recommendation about what is best for Colorado to CCHE for consideration and action.

The final decision maker, and the body ultimately responsible for adopting the final funding allocation model, was the CCHE. CCHE was provided with regular reports on the progress of the project; helped to resolve any conflicts that were not able to be resolved at the EAG level; provided guidance, when necessary to the EAG for issues to take into consideration; and, ultimately, adopted the new funding model.

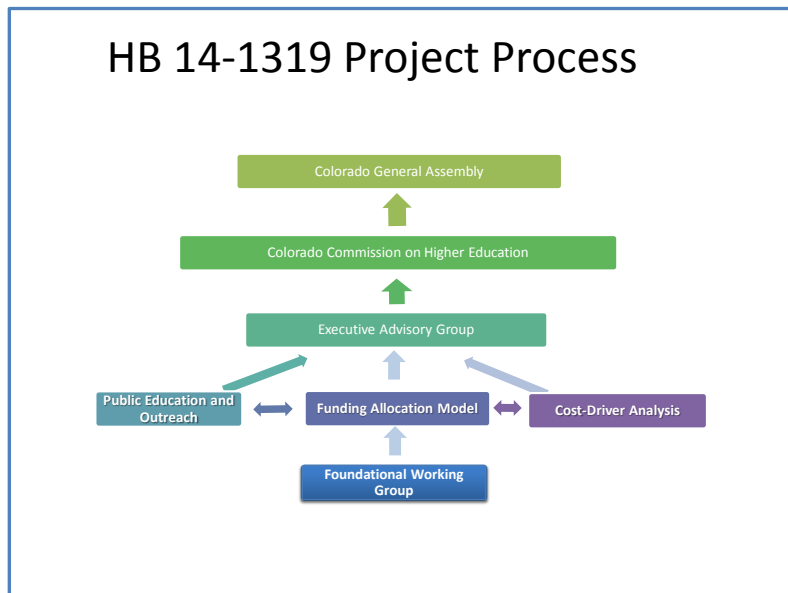
The Executive Advisory Group was comprised of the following members:

Co-Chairs

- Lt. Governor Joseph A. Garcia - Lt. Governor and Executive Director, CDHE - *representing CDHE and the Governor*
- Dr. Donna Lynne - Executive Vice President, Kaiser Permanente - *representing the business community*

Members

- Mr. Jim Chavez - Executive Director, Latin American Education Foundation - *representing students*
- Mr. Tim Foster - President, Colorado Mesa University - *representing four-year rural institutions*
- Mr. Russ George - President, Colorado Northwestern Community College - *representing access institutions and career and technical education (two-year and four-year)*
- Dr. Monte Moses - Commissioner, Colorado Commission on Higher Education - *representing CCHE*
- Dr. Pam Shockley-Zalabak - Chancellor, University of Colorado at Colorado Springs - *representing four-year research institutions*
- Mr. Greg Stevinson - President, Denver West Realty Inc. - *representing the intersection of business & higher education*
- The Honorable Pat Steadman - State Senator, Colorado General Assembly - *representing senate democratic caucus*
- The Honorable Kent Lambert - State Senator, Colorado General Assembly - *representing senate republican caucus*
- The Honorable Jenise May - State Representative, Colorado General Assembly - *representing house democratic caucus*
- The Honorable Jim Wilson - State Representative, Colorado General Assembly - *representing house republican caucus*



Public Education & Outreach Process

The focus of the public education and outreach efforts were to: (1) help project participants and leaders understand the higher education priorities of the stakeholders across the state, and how these priorities should impact what consideration is given to the calculation and weighting of the metrics and factors within the funding allocation model; and, (2) educate the public about the role of higher education and its importance to our state and our economy. The outreach process consisted of three components:

Key Informant Interviews

As a first step in the outreach process, Keystone and Engaged Public conducted 25 phone/in-person interviews with key stakeholders. The purpose of these interviews was to identify opportunities, concerns and provide a baseline understanding of perspectives in order to better inform the design of the subsequent community meetings.

Community Meetings

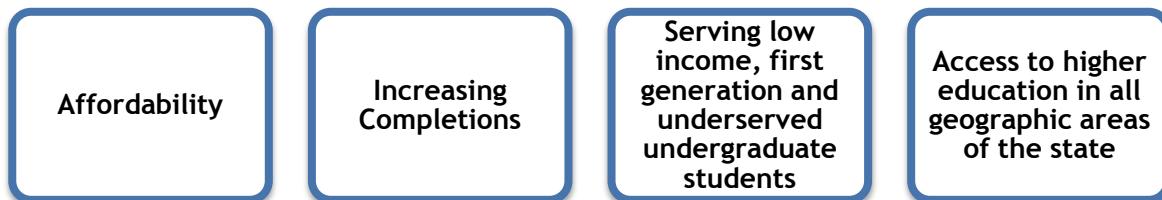
From September 17, 2014 to October 14, 2014, Keystone and Engaged Public conducted 16 meetings statewide with 425 attendees. These meetings were held at institutions as well as community locations which helped ensure a diversity of voices and sectors. Meetings were held in:

➤ Alamosa	➤ Aurora
➤ Boulder	➤ Colorado Springs
➤ Craig	➤ Denver
➤ Durango	➤ Fort Collins
➤ Glenwood Springs	➤ Golden
➤ Grand Junction	➤ Greeley
➤ Gunnison	➤ Pueblo
➤ Sterling	➤ Trinidad

Online Outreach

An online tool - Mind Mixer - was utilized to gather input from those who were unable to attend the meetings or preferred to be reached in a non-traditional manner using Mind Mixer, additional feedback was solicited from 135 students.

The following emerged as the top priority areas for participants in the public education and outreach process:



Key Policy Issues Considered Through the Process

The development of the new *CCHE Funding Allocation Model* was done using the project principles as guidance; incorporated the public education and outreach input; and, constructed upon the decision points recommended by FAMET and EAG, and ultimately approved by CCHE.

USING STUDENT UNIT RECORD DATA IN THE FUNDING MODEL

The implementation of the HB 14-1319 model is unique in the nation for its grounding in an individual Student Unit Record Data within a relational database. Data for the performance funding allocation model are based upon the official data collection system for postsecondary education in Colorado, the Student Unit Record Data Systems, known as SURDS.

SURDS has over 25 years of data collected from our public colleges and universities regarding admissions, enrollment, financial aid, remediation, course information and degree completion.

Using this rich data source and flexible database approach allows for scalability while increasing sustainability through a more efficient data structure which requires less data manipulation and maintenance. The ability to track a student record through the model improves data integrity, leading to a more reliable measurement of indicators. The individual student level data allows for more accurate measure of outcomes and progress over time versus snapshots of aggregate data.

Finally, the intent is that the database built for the model will complement the Cost Driver Analysis still to come, and allow both aspects of the project to work off of one another.

This monumental effort to develop and implement a new funding allocation model - that complied with the legislative directives outlined in HB 14-1319 *and* incentivized institutions to achieve the statewide goals for higher education - did not come easily. Important and very complicated policy issues were discussed and vetted by the FAMET and EAG, and resolved through collective agreement by those involved. Many of these conversations and resulting collaborative decisions were made with the help of professional facilitators. Each decision is inextricably linked to the others and was ultimately part of the compromise necessary to “make the model work.”

Of the many policy issues discussed, two issues stood out and were resolved through this iterative and very public process:

Student Count (Resident/Non Resident)

A robust discussion took place over several FAMET and EAG meetings before a final recommendation was developed and forwarded to CCHE for action. In these discussions a number of important policy issues were vetted - public perception; recognizing overall institutional performance; understanding the inability to separate programmatic costs offered to resident vs. non-resident; and, providing incentives to achieve statewide performance goals. After several discussions about the issues pertaining to student counts, both the

FAMET and EAG voted to recommend, and CCHE unanimously approved, including all students throughout the model with the exception of the additional funding provided for Pell-eligible and underrepresented minorities within the Role & Mission component - because both of these funding pools are based off of a percentage of COF stipend, for which only resident students are eligible.

Underrepresented Minorities

Through the public education and outreach process, the message was clear from across the state that Colorado needs to place an emphasis on meeting the needs of the “at risk” student population. In addition, the Colorado Commission on Higher Education’s Master Plan recognizes the significant attainment gap for these students and includes a goal to reduce this gap through increased postsecondary credentials.

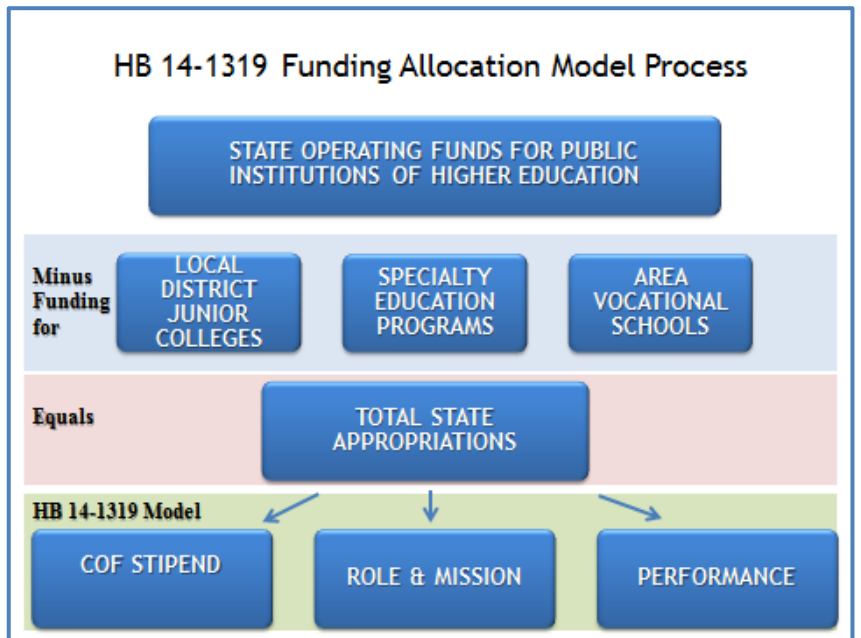
To meet the attainment goals in the Master Plan, emphasis on the success of underrepresented minorities is essential. Using Colorado data, the underrepresented minorities that have the greatest challenges with post-secondary credential attainment include Native Americans, Hispanics, and African Americans. Through the project process, it was decided that Pacific Islanders would also be captured within the definition of underrepresented minorities for the purpose of the funding model. The new funding allocation model acknowledges the importance of meeting the needs of these populations and provides increased funding to colleges and universities to support low-income and minority students.

Appendix B includes detailed issue briefs on student count and underrepresented minorities.

The CCHE Adopted Funding Allocation Model

As required by HB 14-1319, the *CCHE Funding Allocation Model* consists of three components: The College Opportunity Fund (COF) Stipend, Role & Mission factors, and Performance metrics. Each component has specific characteristics and parameters, which are driven in large part by the statutory requirements of HB 14-1319.

Further, the legislation specifies that only “Total State Appropriation”, not total state allocation, shall be distributed through the funding allocation



model. To calculate what constitutes “Total State Appropriation”, one starts with the total appropriation provided by the General Assembly for institutions of higher education and carves out funding for programs that will not receive their allocations through the model—Specialty Education Programs, Area Vocational Schools and Local District Junior Colleges (also excludes student financial aid and capital funds). “Total State Appropriations” is then run through the model and allocated to governing boards via the three model components.

Important Statutory Requirements for Appropriations

Total State Appropriation (TSA)

Total state appropriation means, for a state fiscal year, the sum of the total amount appropriated to the governing boards of the state institutions of higher education for fee-for-service contracts determined pursuant to section 23-18-303, C.R.S and the amount of the appropriation to the college opportunity fund established in section 23-18-202, C.R.S. for student stipends. *Section 23-18-302 (10), C.R.S.*

Appropriations for Specialty Education Programs (SEP), Area Vocational Schools (AVS) and Local District Junior Colleges (LDJC)

Funding must be equal to such contract for the preceding year, plus-or-minus the same change in the *total state appropriation* and allows for a funding increase for these programs in excess of the percentage increase in the *total state appropriation*, or a decrease less than percentage decrease in the *total state appropriation*. *Section 23-18-304, C.R.S.*

College Opportunity Fund Stipend

Student stipends authorized under the College Opportunity Fund Program (23-18-201, et.seq.); and must be at least 52.5 percent of “total state appropriation” *Section 23-18-305 (2) (a), C.R.S.*

Role & Mission Fee-for-service Contracts

Each fee-for-service contract must include both role and mission and performance funding, and it is the General Assembly’s intent that the components of the fee-for-service contracts be “fairly balanced” between role and mission factors and performance metrics. *Section 23-18-303 (2), C.R.S.*

Based on the statutory parameters, the ***CCHE Funding Allocation Model*** is broken down into four sequential worksheets (dashboards) that follow the model allocation method and are based on the statutory requirements set forth in HB 14-1319. The four dashboards are:

1. *Budget*
2. *Role & Mission*
3. *Performance*

4. Final Model Output

Each dashboard includes a set of adjustable policy levers. The following summarizes the components of the model with weights for each factor and metric. Additional details on the model components and weights can be found in Appendix C and the full model with each dashboard can be found in Appendix D.

1. Budget Dashboard

The budget dashboard contains the basic starting points for the model, including:

- The appropriation (state funding amount) for institutions of higher education;
- The option to provide an additional increase to “Specialty Education Programs (SEP),” “Area Vocational Schools (AVS)” and “Local District Junior Colleges (LDJC);”
- “Total state appropriation” (the amount to be distributed through the model)
- The COF stipend rate; and
- The percentage split between Role and Mission and Performance.

The following table includes the *Budget Dashboard* weights in the *CCHE Funding Allocation Model*.

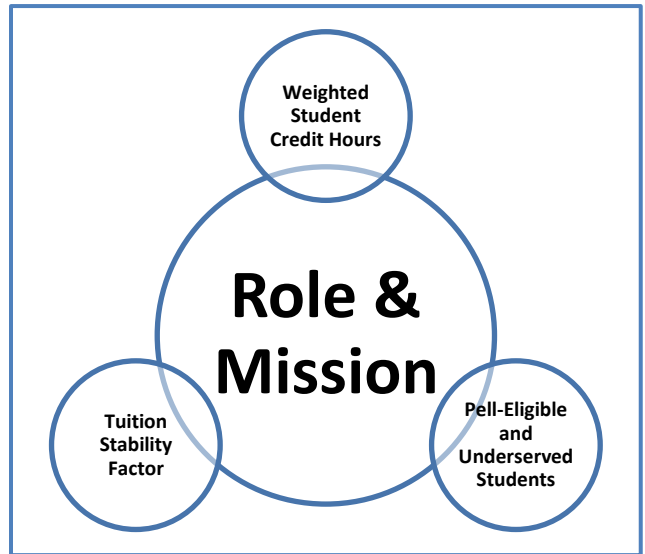
Budget Dashboard	
Model Component	Model Weight
Full Appropriation Amount	Assumes the 10% increase from the Governor’s requested budget for FY 2015-16.
Additional Increase for SEP/AVS/LDJC	As required by statute, funding must be equal to such contract for the preceding year, plus-or-minus the same change in the Total State Appropriation.
Total State Appropriation	Full appropriation to institutions of higher education less appropriations SEP, AVS and LDJC.
The COF Stipend Rate	COF stipend is set \$75 per credit hour and is equal to 56% of “total state appropriation.”
The split between Role & Mission and Performance	Role & Mission: 60% Performance: 40%

2. Role & Mission Dashboard

The Role & Mission factors are designed to help offset the costs incurred in providing undergraduate, graduate and remedial programs to students in a manner that recognizes who the institution serves, how it serves students and the environment in which it serves students. Specifically, HB 14-1319 requires that the Role & Mission factors be comprised of funding to offset the costs of providing programs - undergraduate [23-18-303(3)(a), C.R.S.]; graduate [23-18-303(3)(c), C.R.S.]; and remedial [23-18-303(3)(d), C.R.S.] This is accomplished by using completed courses as measured by completed student credit hours, called Weighted Student Credit Hours. Student credit hours are weighted by discipline cluster that is cost informed

and was developed by the National Center for Higher Education Management Systems (NCHEMS).

In addition, the legislation specifically requires dedicated funding for support services for Pell-eligible students, which must be funded at a level equal to at least 10% of the COF stipend [23-18-303(3)(b), C.R.S.] The CCHE adopted model also provides an additional amount of funding to offset the costs of support services for underrepresented minority students, which is also based on a percentage of the COF Stipend.



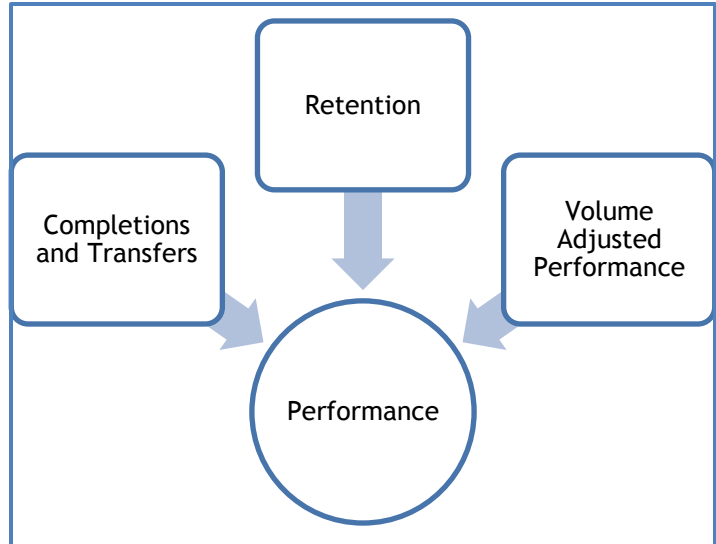
Finally, the model includes the Tuition Stability Factor, which is an additional Role & Mission factor pursuant to 23-18-303 (3)(e), C.R.S., and is a flat dollar amount to help ensure institutional affordability.

The following provides a description of how each Role & Mission factor is calculated in the *CCHE Funding Allocation Model*:

Role & Mission		
Role & Mission Factor	Measurement in HB 14-1319 Model	Model Weight
Weighted Credit Hours	Allocates funding to institutions based upon completed courses as measured by completed student credit hours. Student credit hours are weighted by discipline cluster in an expanded matrix that is cost informed and was independently developed by the National Center for Higher Education Management Systems (NCHEMS).	See Appendix D
Support Services for Pell-eligible Students	Uses Pell-eligible and undergraduate student credit hours as a percent of the College Opportunity Fund Stipend (COF).	10% of COF Stipend
Underrepresented Minority Students	Uses underrepresented minorities (URM) undergraduate student credit hours as a percent of the College Opportunity Fund Stipend (COF).	5% of COF Stipend
Tuition Stability Factor	A flat dollar amount to help ensure institutions can continue to comply with the College Affordability Act, which includes a 6 percent tuition cap on resident tuition.	See Appendix D

3. Performance Dashboard

The Performance metrics reward institutions for the number of credentials awarded and students transferred [23-18-303(4)(a), C.R.S.]; as well as academic progress/retention [23-18-303(4)(b), C.R.S.]. These metrics are based on the student counts at each institution who are reaching these thresholds. In addition, *CCHE Funding Allocation Model* includes an additional metric pursuant to 23-18-303 (4)(c), C.R.S. that rewards performance in a manner that recognizes institutional performance in relation to their size and capacity.



As required in statute, the model includes specific weights related to the academic award level and identifies STEM and health care as “high priority” subjects that receive a higher weight. Additional bonuses are provided for completions awarded to and transfers of Pell-eligible (required by statute) and underrepresented minority student populations.

Completion and Transfer weights are as follows:

Completion and Transfer								
Demand Indication	Transfer (0.25)	Certificates (0.25)	Associates (0.50)	Bachelors (1.00)	Graduate Certificate (0.25)	Masters (1.25)	Specialists (1.25)	Doctoral (1.75)
STEM and Health (1.5)	n x .25	n x 1.5 x 0.25	n x 1.5 x 0.50	n x 1.5 x 1.0	n x 1.5 x 0.25	n x 1.5 x 1.25	n x 1.5 x 1.25	n x 1.5 x 1.75
All Others (1)		n x 1.0 x 0.25	n x 1.0 x 0.50	n x 1.0 x 1.0	n x 1.0 x 0.25	n x 1.0 x 1.25	n x 1.0 x 1.25	n x 1.0 x 1.75

Additional Undergraduate Completion/Transfer Bonus for Priority Populations	
Priority Population	CCHE Adopted Model Weight
Pell-Eligible	1.5
Underserved Populations	1.5

Retention is measured at each institution by assessing the numbers of students at 25%, 50%, and 75% momentum points toward a degree. For four-year institutions, this is the number of students who cross the threshold of completing 30 credit hours, 60 credit hours and 90 credit hours, while at two-year institutions, those thresholds are 15 credit hours, 30 credit hours and 45 credit hours. There are no additional population bonuses for the retention metric.

Retention Weights (completed credit hours)	
Credit Hours Accumulated	CCHE Adopted Model Weight
15/30	.25
30/60	.50
45/90	.75

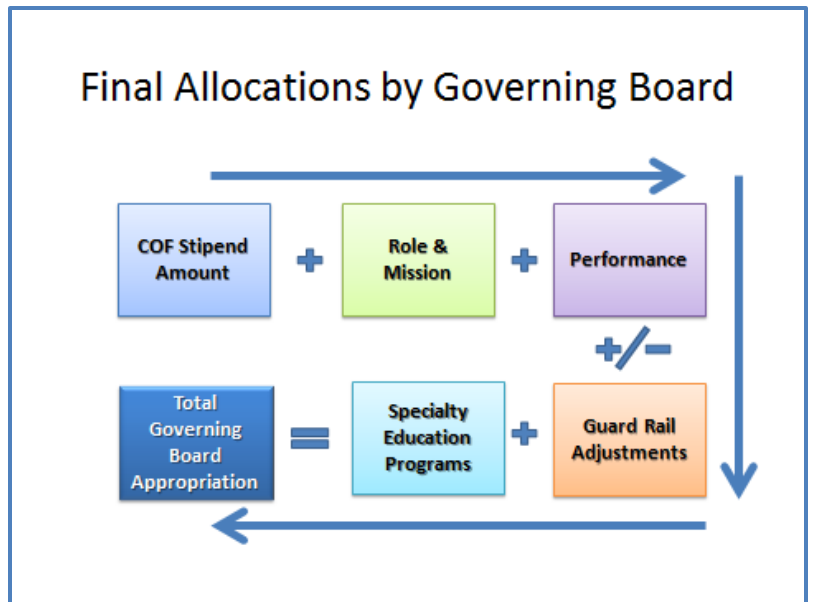
The Volume Adjusted Awards metric, is an additional metric (pursuant to (23-18-303 (4)(c), C.R.S.) that rewards performance in a manner that recognizes institutional performance in relation to their size and capacity. The Volume Adjusted Awards metric is calculated by taking an institution’s weighted award total divided by the number of Student Full-time Equivalent (SFTE) and then indexing it to the state average.

4. Final Output Dashboard

The Final Output Dashboard includes a summary of allocations to Governing Board from each of the model components: COF Stipend, Role & Mission, and Performance. This dashboard also demonstrates the impact of the “guardrail” provision applications and appropriations for “Specialty Education Programs” to produce the final allocation by governing board.

Guardrails - Transitioning to the New Model

To ease the transition into the new outcomes-based model for all institutions, allowing time to understand the impact of the model and adjust operations, HB 14-1319 includes the application of “guardrails”. The guardrails ensure that no institution receives a change in base funding from the previous year that is 5% less than or greater than the change in Total State Appropriation.



These guardrails are to be applied for the first five fiscal years, FY 2015-16 through FY 2019-20, after which, funding will be allocated based solely on the model calculations. Beginning in FY 2020-21, use of the guardrails is optional.

In the *CCHE Funding Allocation Model*, the “guardrails” are applied utilizing a three-pass methodology. The first pass brings down the allocation of all governing boards whose model allocation put them above the uppermost guardrail limit. The second pass allocates the “above guardrail funding” to those governing boards below the lowermost guardrail. In the third pass, if any governing boards remain below the lowermost guardrail, funding is taken proportionally from each governing board above the lowermost guardrail until all institutions are within the lower and upper guardrails parameters.

Next Steps & Version 2.0

The project process was created to ensure that all recommendations and decisions along the way were fully vetted and considered from diverse viewpoints. The intensely inclusive and collaborative process for implementing HB 14-1319 proved to be highly successful. It created great support and cultivated ownership for the recommendations that ultimately became the *CCHE Funding Allocation Model*. CDHE and CCHE will continue this inclusive approach as we monitor the implementation of the current model structure and move forward into future fiscal years.

Model Modifications - Development and Implementation Process

Prior to setting the allocations for the 2016-17 Fiscal Year, CDHE and CCHE will again engage in an open and transparent process with interested parties to discuss the development and implementation of any needed modifications. Currently, CDHE believes only minor adjustments are needed to the current funding allocation model to establish longitudinal measurements of performance rather than shifting funds each year based on changing criteria.

- **Funding Allocation Model Review Team**
The Department will continue a scaled down version of the original process by creating a Funding Allocation Model Review Team (FAMRT) comprised of expert representatives from our colleges and universities and staffed by CDHE. This team will meet quarterly, or as needed, to discuss any proposed recommended changes to the current model.
- **CCHE Subcommittee**
A subcommittee of the CCHE will also be created to review any recommendations from the FAMRT; provide feedback to the Team; and ultimately make final recommendations to the full CCHE for action.
- **Colorado Commission on Higher Education**
CCHE will again be the final decision making body for any recommended (1)

changes to the funding allocation model and/or (2) legislative changes needed to implement.

Lastly, the Department will continue to work closely and transparently with the Office of State Planning and Budget (OSPB) and Joint Budget Committee (JBC) analysts, who have been key partners in the current process.

Model Improvements

There were several proposed ideas that arose during the process that were not able to be fully vetted and potentially included in the initial model structure, due to the rapid implementation timeline of the model. These included, but are not limited to, the following concepts:

- **Successful Remediation**
The current model provides an incentive to colleges and universities for completed remedial courses. An additional “successful remediation” metric could be added to include an incentive for the actual successful completion of an English and/or math gateway course, within 30 credit hours.
- **Technology Transfer and Innovation**
An economic innovation metric had been discussed in the initial implementation, but in the end was recommended to be examined for possibly including this metric in later versions of the model once a metric definition could be created and agreed upon.
- **Adult Populations**
Including an additional financial incentive for retention and graduation of adult students was briefly discussed. Adding this incentive would align with targeting populations that are critical to Colorado meeting our current credential attainment and workforce goals.
- **Meeting CCHE Goals**
A thorough review of the alignment between the CCHE Master Plan goals - credential attainment, student success, and closing the attainment gap - and the performance funding model will occur. Among other things, a refinement of the weights for target populations will be explored as a method for advancing and meeting CCHE state goals.
- **College Opportunity Fund Stipends**
The *CCHE Funding Allocation Model* uses enrollment projections in the 2014-2015 Long Bill for the COF Stipend allocation to governing boards for the upcoming fiscal year. The Department, in consultation with the JBC and OSPB, will study alternatives for version 2.0 of the model and the 2016-2017 COF Stipend allocations to the governing boards.

Data Improvements

As stated earlier, Colorado's new funding allocation model is unique because of its underlying longitudinal and student level database platform. In order to create the most robust, dynamic and responsive model possible, it was decided to use Student Unit Record Data (SURDS) to feed the funding allocation model, as opposed to aggregate data. Colorado is the first state to base their funding model on such granular data, resulting in more than eight million total records in the funding allocation model database. Using SURDS allows CDHE to load and manage future year's data and allow for more dynamic and longitudinal analysis of trends in this data.

However, because of the short timeframe provided by the legislation, there were several components of the data that will continue to evolve and improve over time. These components include, but are not limited to, the following:

- **First Generation Students**
Currently, the Department is unable to collect information on first generation students. The Department will work with our higher education institutions to develop a common definition and collection method for this valuable variable.
- **Tracking Retention**
A more refined methodology for tracking retention at the 30-60-90 momentum points will be developed. While not a concern in this base year, this metric will become more challenging to measure over time and will benefit from a thoroughly revised methodology.
- **Weighting of Completed Credit Hours**
The Department will work with NCHEMS and the Data Advisory Group to ensure that course file reporting and how this data is applied within the model are fully aligned.

Appendix A. CEO Letter of Support



December 11, 2014

The Honorable Kent Lambert
 Chair, Joint Budget Committee
 Colorado General Assembly
 200 E. 14th Avenue, Third Floor
 Legislative Services Building
 Denver, CO 80203

Dear Senator Lambert:

As you know, for the past six months Colorado's public system of higher education has diligently worked to develop a new funding formula for allocating state operating funds for higher education pursuant to House Bill 14-1319. A robust and transparent process has included extensive statewide public outreach and thousands of hours of work of various subcommittees including the participation of you and several of your legislative colleagues as members of the Funding Allocation Model Expert Team (FAMET) and the Executive Advisory Group (EAG).

As the leaders of public higher education in Colorado we unanimously endorse the FV 2015-16 funding model that was approved by CCHS on December 4th. We respectfully request that the JBC adopt the model and use of transition funding as recommended.

We also unanimously endorse the Governor's budget request, which included a 10.0 percent base funding increase of \$60.6 million. In addition, we all recognize the importance of the \$15.0 million in transitional funding and believe that it is critical that this funding remain for at least five years to support a smooth transition to the House Bill 14-1319's model. This significant requested operating increase was the key to reaching agreement on the model.

The model reflects House Bill 14-1319 and uses a transparent funding methodology that is tied to actual data that can be tracked. After incorporating the Governor's budget request, the new model results in base operating increases that range from approximately 2.9 to 16.4 percent by governing board. The guardrail provisions of House Bill 14-1319 result in this range being adjusted to a 5.0 percent increase on the low end and a 15.0 percent increase on the high end. After implementation of the guardrail, the

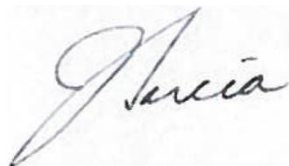
recommendation then uses a portion of the \$15.0 million transition funding pot, which results in no single governing board receiving less than a 10.0 percent increase over its FY 2014-15 appropriation.

Using a portion of the transition funding this way will allow all governing boards to comply with the second year of the 6 percent undergraduate resident tuition cap required by law. How the remaining portion of the \$15 million will be allocated is yet to be determined. This first year consensus adjustment and allocation is important because it will help keep a quality postsecondary credential within reach for all Colorado students attending any one of our public colleges or universities.

We recognize that no funding model is perfect and that we can anticipate adjustments and refinements in future years. Nevertheless, a recommendation that can be supported unanimously this year allows for institutional planning and is ultimately a positive result for Colorado families and students. Therefore we strongly encourage the Joint Budget Committee and members of the General Assembly to join us in supporting this collective recommendation.

We deeply appreciate the assistance of the Committee in this effort in addition to the work on the FY 2015-16 request and look forward to a productive legislative session.

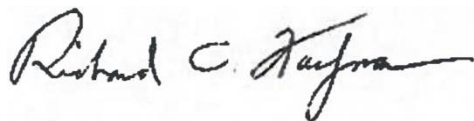
Thank you,



Lt. Gov. Joseph A. Garcia, Executive Director
Colorado Department of Higher Education



Bruce D. Benson, President
University of Colorado System



Richard Kaufman, Chairman
Colorado Commission on Higher Education



Dr. Nancy J. McCallin, President
Colorado Community College System



Tim Foster, President
Colorado Mesa University



Kay Norton, President
University of Northern Colorado



Dr. Steven M. Jordan, President
Metropolitan State University at Denver



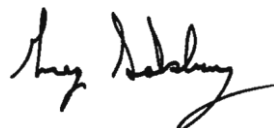
Dr. M. W. Scoggins, President
Colorado School of Mines



Dr. Michael V. Martin, Chancellor
Colorado State University System



Dr. David Svaldi, President
Adams State University



Dr. Greg Salsbury, President
Western State Colorado University



Dr. Dene Kay Thomas, President
Fort Lewis College

Cc: Representative Millie Hamner, Joint Budget Committee, Vice-chair
Representative Dave Young, Joint Budget Committee
Representative Bob Rankin, Joint Budget Committee
Senator Kevin Grantham, Joint Budget Committee
Senator Pat Steadman, Joint Budget Committee
Ms. Amanda Bickel, Chief Legislative Analyst, Joint Budget Committee
Mr. Henry Sobanet, Director, Governor's Office of State Planning and Budgeting
Ms. Alexis Senger, Chief Analyst, Governor's Office of State Planning and Budgeting
Ms. Donna Lynne, Co-Chair, House Bill 14-1319 Executive Advisory Group

Appendix B. HB 14-1319 Issue Briefs: Student Count (Resident/Non Resident)

The Colorado Commission on Higher Education (CCHE) adopted funding allocation model counts all students (residents and non-residents) throughout the model, with the exception of Pell-eligible and underrepresented minorities (URM) under the Role and Mission components. The reason for this is that they are tied to the College Opportunity Fund stipend, for which, only resident students will be counted.

BACKGROUND

Early in the HB 14-1319 project process, the question was raised about the students within the factors and metrics of the model - should the model count all students or resident students only? *The legislation was intentionally silent on this issue, purposefully leaving it to the project process to address.*

A robust discussion took place over several Funding Allocation Model Expert Team and Executive Advisory Group meetings before a final recommendation was developed and forwarded to CCHE for action. In these discussions a number of important policy issues were vetted - public perception; recognizing overall institutional performance; understanding the inability to separate programmatic costs associated with resident and non-resident; and, providing incentives to achieve statewide performance goals.

The Colorado Commission on Higher Education's Master Plan - [Colorado Competes, A Completion Agenda for Higher Education](#) - focuses on the achievements of all students in Colorado. In addition, the legislation itself calls for recognizing the total number of students performing under "transfers", "retention", and "completions".

Further, after reviewing prior fee-for-service contracts there has not been a distinction between services provided to residents versus services provided to non-residents. On campuses, services are made available to all students and are not segregated by residency; and, classrooms have both residents and non-residents in courses studying alongside one another. Only the College Opportunity Fund (COF) stipend is specifically targeted to provide funding to governing boards based on the number of resident undergraduates.

WHAT DOES THE DATA TELL US?

A close examination of the Pell-eligible credit hour data shows that the ratio of resident to non-resident students is less than 10% statewide, with campuses near the border of the state having a larger concentration. In addition, while the overall percentage of non-resident completers statewide is not significant, there are higher concentrations of completers at some campuses. The data further indicates that at least 30% of the non-resident students remain in Colorado following graduation and contribute to our economy.

WHERE WILL THE MONEY GO?

All of the state funding provided through the CCHE Adopted Funding Allocation Model will be provided to institutions to offset costs of providing undergraduate and graduate programs and reward outcomes under the Performance metrics. No funding is provided to any student, nor will any state funding offset the tuition or fees that are paid by non-resident students. Rather, all state funding provided to our colleges and universities helps support in-state students and keep resident tuition affordable.

THE DECISION

After several discussions about the issues pertaining to students counts, both the Funding Allocation Model Team and the Executive Advisory Group voted to recommend, and CCHE unanimously approved, including all students throughout the model with the exception of the additional funding provided for Pell-eligible and Under Represented Minorities under the Role & Mission component.

Appendix B. HB 14-1319 Issue Briefs: Underrepresented Minorities

HB 14-1319 recognizes the increased costs associated with providing critical support services to our low-income and minority students. First, the legislation requires an increase in the funding allocation to colleges and universities within the new funding allocation model, in the Role and Mission component, to offset costs associated with providing needed services to Pell-eligible students. Second, it provides the option of providing a similar funding allocation based on the number of underserved/underrepresented minorities and first generation students being served.

Through the public education and outreach process, the message was clear from across the state that Colorado needs to place an emphasis on meeting the needs of the “at risk” student population. In addition, the Colorado Commission on Higher Education’s Master Plan - [Colorado Competes, A Completion Agenda for Higher Education](#) - recognizes the significant attainment gap for these students and sets as its goal the reduction of this gap through increased postsecondary credentials.

BACKGROUND

Research shows that underrepresented minorities do less well, even after correcting for income (and also “readiness”). - [Georgetown Center on Education and the Workforce](#)

- Race matters, controlling for readiness: High-scoring African Americans and Hispanics go to college at the same rates as similarly high-scoring whites, but drop out more often and are less likely to graduate with a Bachelor’s degree.
- Race matters, controlling for income: Lower income African-Americans and Hispanic students do not do as well as lower income whites.
 - White students in the lower half of family income distribution drop out of college much less frequently than African-Americans and Hispanics.
 - Lower income whites get Bachelor’s degrees at nearly twice the rate of African Americans and Hispanics and obtain fewer sub-baccalaureate degrees.

CCHE MASTER PLAN

In 2010, during the Master Planning process, several years of data were examined by CDHE staff to identify where Colorado has demographic gaps in post-secondary attainment. CDHE consulted with The National Center for Higher Education Management Systems (NCHEMS) to align the URM definition to national standards. Based upon the educational disparities of Hispanic, African American, Native American, and Pacific Islanders these minority groups were defined as URM because they have a significantly lower postsecondary retention and attainment rates.

INCORPORATING UNDERREPRESENTED MINORITIES INTO THE FUNDING ALLOCATION MODEL

To meet the attainment goals in the Master Plan, emphasis on the success of underrepresented minorities is essential. The new funding allocation model acknowledges the importance of meeting the needs of these populations and provides increased funding to colleges and universities as follows:

- an amount equal to **10%** of the College Opportunity Fund Stipend for each Pell-eligible student served, and
- an amount equal to **5%** of the College Opportunity Fund Stipend for each underrepresented minority student served.

Appendix C. Funding Allocation Model Definitions and Weights

Role & Mission Factor Definitions and Data Sources		
Factor	Definition	Date Source
Weighted Credit Hours	Utilizing a weighted credit hour taxonomy, this calculation accounts for the role and mission factors spelled out in the legislation, under Section 23-18-303(3). The weighted credit hour factor allocates funding to institutions based upon completed courses as measured by student credit hours. Student credit hours are weighted by discipline cluster in an expanded matrix that is cost informed and was independently developed by the National Center for Higher Education Management Systems (NCHEMS).	Student Unit Record Data System (SURDS)
Pell-eligible	Completed credit hours for resident undergraduate Pell eligible students summed by institution. Credit is given for this metric if a student has been Pell eligible at any time from academic years 2010 to academic year 2014. Use Pell-eligible credit hours as a percent of the College Opportunity Fund (COF) stipend (must never be less than 10 percent of COF).	Student Unit Record Data System (SURDS)
Underrepresented Minorities	Completed credit hours for Underrepresented minorities (URM) summed by institution. The underrepresented minority distinction is given to self-identified Hispanic, Black, Pacific Islander, and Native American as defined in the Colorado Commission on Higher Education’s Master Plan.	Student Unit Record Data System (SURDS)
Tuition Stability Factor	A flat dollar amount to help to ensure institutions can continue to comply with the College Affordability Act, which includes a 6 percent tuition cap on resident tuition.	N/A

Role & Mission Factor Weights	
Factor	Weight
Weighted Credit Hours	See chart below
Pell-eligible	10% of the COF Stipend
Underrepresented Minorities	5% of the COF Stipend
Tuition Stability Factor	N/A (flat dollar amount). For FY 2015-16, \$19.5 million (or 2% of the model total) is allocated through the tuition stability factor.

Weighted Credit Hour Taxonomy					
CIP CODE	Discipline Cluster	Lower Division	Upper Division	Masters	Doctoral/Pro.
Liberal Arts, Math, Social Science, Languages, and Others Cluster					
05	Area, Ethnic, Cultural & Gender Studies	1.0	2.0	4.0	5.0
09	Communication, Journalism	1.0	2.0	4.0	5.0
16	Foreign Languages, Literature & Linguistics	1.0	2.0	4.0	5.0
19	Family, Consumer, & Human Sciences	1.0	2.0	4.0	5.0
23	English Languages & Literature	1.0	2.0	4.0	5.0
24	Liberal Arts and Sciences, General Studies	1.0	2.0	4.0	5.0
25	Library Sciences	1.0	2.0	4.0	5.0
27	Mathematics & Sciences	1.0	2.0	4.0	5.0
28	ROTC	1.0	2.0	4.0	5.0
29	Military Technologies	1.0	2.0	4.0	5.0
30	Interdisciplinary Studies	1.0	2.0	4.0	5.0
38	Philosophy & Religious Studies	1.0	2.0	4.0	5.0
42	Psychology & Applied Psychology	1.0	2.0	4.0	5.0
45	Social Sciences	1.0	2.0	4.0	5.0
54	History	1.0	2.0	4.0	5.0
99	Honors Curriculum, Other	1.0	2.0	4.0	5.0
Basic Skills Cluster					
32	Basic Skills and Remediation (as flagged)	1.5	--	--	--
Business Cluster					
44	Public Administration and Social Services	1.0	2.0	4.0	6.0
52	Business Management, Marketing & Related	1.0	2.0	4.0	6.0
Education Cluster					
13	Education	1.5	2.0	2.5	5.0
Services Cluster					
31	Parks, Recreation, Leisure, Fitness Studies	1.5	2.0	3.0	4.0
12	Personal & Culinary Services	1.5	2.0	3.0	4.0
43	Security & Protective Services	1.5	2.0	3.0	4.0
Visual and Performing Arts Cluster					
50	Visual & Performing Arts	1.5	2.5	5.0	5.0
Trades and Technology Cluster					
46	Construction Trades	2.0	2.5	--	--
47	Mechanics Repair Technologies	2.0	2.5	--	--
48	Precision Production	2.0	2.5	--	--
49	Transportation & Materials Moving	2.0	2.5	--	--
Sciences Cluster					
01	Agricultural Sciences and Related Operations	2.0	3.0	5.0	8.0
03	Natural Resources & Conservation	2.0	3.0	5.0	8.0
11	Computer & Information Sciences	2.0	3.0	5.0	8.0
26	Biological & Biomedical Sciences	2.0	3.0	5.0	8.0
40	Physical Sciences	2.0	3.0	5.0	8.0
Law Cluster					
22	Legal Professions and studies	2.0	2.0	4.0	4.0
Engineering and Architecture Cluster					

Weighted Credit Hour Taxonomy					
CIP CODE	Discipline Cluster	Lower Division	Upper Division	Masters	Doctoral/Pro.
04	Architecture	2.0	3.0	5.0	8.0
14	Engineering	2.0	3.0	5.0	8.0
15	Engineering Technologies	2.0	3.0	5.0	8.0
Health Cluster					
51	Nursing & Allied Health Professions	2.0	2.0	5.0	6.0

Performance Metric Definitions and Data Sources		
Metric	Definition	Data Source
Completion	<p>The number of certificates or degrees awarded an institution and the number of students who transfer from a community college to another institution after the completion of a minimum of 18 credit hours. The amount to be awarded for each certificate or degree is based on the subject and level of the credential.</p> <p>Certificates will be counted when issued for:</p> <ul style="list-style-type: none"> • Programs spanning one year (24 credit hours) or more; or • If program is less than one year (24 credit hours) and meets the federal “gainful employment” definition, or represents the highest award earned at stop-out. <p>Students earning multiple certificates in an academic year will have each earned certificate count as a separate outcome. A community college that receives an incentive for a transfer student cannot also receive a retention bonus for that student in the same year.</p> <p>The value shall be increased for each credential earned or transfer of a Pell-eligible undergraduate student and/or an undergraduate student designated as “underserved”, as defined by the CCHE Master Plan.</p>	Student Unit Record Data System (SURDS)
Retention	<p>The number of students who make the following steps of academic progress:</p> <p>Four-year institutions -number of students who cross the threshold of completing:</p> <ul style="list-style-type: none"> • 30 credit hours • 60 credit hours • 90 credit hours <p>Two-year institutions - number of students who cross the threshold of completing:</p> <ul style="list-style-type: none"> • 15 credit hours • 30 credit hours • 45 credit hours <p>Concurrent enrollment will be included and each student will be counted only once at each academic progress interval.</p>	Student Unit Record Data System (SURDS)

Performance Metric Definitions and Data Sources		
Metric	Definition	Data Source
Volume Adjusted Awards	The Volume Adjusted Awards metric is calculated by: <ol style="list-style-type: none"> 1. Dividing an institutions total weighted degree total by SFTE = “Awards per FTE” 2. Indexing individual institutions’ “Awards per FTE” to the state average “Awards per FTE” 3. Multiply “indexed awards per FTE” by total “awards per FTE” funding to get allocation by institution for this metrics 	Student Unit Record Data System (SURDS) Budget Data Book

Performance Metric Weights

Completion and Transfer (CCHE Adopted Model Weight)								
Demand Indication	Transfer (0.25)	Certificates (0.25)	Associates (0.50)	Bachelors (1.00)	Graduate Certificate (0.25)	Masters (1.25)	Specialists (1.25)	Doctoral (1.75)
STEM and Health (1.5)	n x .25	n x 1.5 x 0.25	n x 1.5 x 0.50	n x 1.5 x 1.0	n x 1.5 x 0.25	n x 1.5 x 1.25	n x 1.5 x 1.25	n x 1.5 x 1.75
All Others (1)		n x 1.0 x 0.25	n x 1.0 x 0.50	n x 1.0 x 1.0	n x 1.0 x 0.25	n x 1.0 x 1.25	n x 1.0 x 1.25	n x 1.0 x 1.75

Additional Undergraduate Completion/Transfer Bonus for Priority Populations	
Priority Population	CCHE Adopted Model Weight
Pell-Eligible	1.5
Underserved Populations	1.5

Retention Weights (completed credit hours)	
Credit Hours Accumulated	CCHE Adopted Model Weight
15/30	.25
30/60	.50
45/90	.75

After the points have been calculated for the completion and retention metrics, weights are then uniformly applied to the counts for each institution.

Completion and Retention Metric Weights	
Completion	85%
Retention	15%

Volume Adjusted Awards

This metric functions as a “carve out” off the top of the amount allocated to the Performance component of the model. In the adopted model, 40% of Performance funds are allocated via the Volume Adjusted Awards Metric.

Appendix D. Final Model Dashboards

Budget Dashboard

FUNDING ALLOCATIONS

Total Appropriations for Higher Education

Full Appropriations for Higher Education	\$666,473,827
Specialty Education Programs Amount	\$114,841,868
Local District Junior College Amount	\$15,449,050
Area Vocational Schools Amount	\$9,882,063
New Total State Appropriations for Model (TSA)	\$526,300,815

Budget Percentage Increase

10.00%

SEP Additional Increase

0.00%

COF Stipend

Total Awarded from COF Stipend	\$294,835,172
--------------------------------	---------------

Percent of Appropriation Dedicated to COF Stipend

	56.0%
--	-------

COF Stipend must be 52.5% or greater.

COF Stipend per Credit Hour

\$75

Role & Mission and Performance Allocations

Total in Role and Mission Allocation	\$138,879,386
Total: Performance	\$92,586,257

Role and Mission Split Percentage

80%

Performance Split Percentage

40%

Role and Mission Dashboard

ROLE AND MISSION

Governing Board	Dollars Awarded to Pell	Dollars Awarded to URM	Dollars Awarded to Tuition Stability Factor	Dollars Awarded to Weighted Credit Hours	Total Awarded from Role and Mission
Adams State University Board	\$211,403	\$78,041	\$4,000,000	1,690,529	5,977,972
Colorado Mesa Board	\$883,813	\$125,348	\$1,000,000	3,259,433	5,088,593
Colorado School of Mines Board	\$156,315	\$39,536	\$2,250,000	5,854,768	8,300,619
Colorado State University Board	\$1,502,228	\$420,964	\$1,000,000	18,839,796	21,762,988
Community College System Board	\$6,049,651	\$1,457,556	\$1,000,000	20,445,425	28,952,632
Fort Lewis College Board	\$170,085	\$42,694	\$0	2,311,864	2,524,642
Metro State University Board	\$1,603,703	\$478,489	\$0	8,154,446	10,236,637
University of Colorado Board	\$2,168,788	\$602,025	\$1,500,000	34,214,745	38,485,538
University of Northern Colorado Board	\$668,858	\$197,914	\$6,000,000	6,608,936	13,475,708
Western State Board	\$113,426	\$17,936	\$2,750,000	1,212,694	4,094,056
Grand Total	\$13,328,247	\$3,458,502	\$19,500,000	102,592,637	138,879,386

Pell Carveout
10.0%

URM Carveout
5.0%

Adams TSF \$4,000,000
Community College TSF \$1,000,000
CSU TSF \$1,000,000
CU TSF \$1,500,000
Fort Lewis TSF \$0
Mesa TSF \$1,000,000
Metro State TSF \$0
Mines TSF \$2,250,000
Northern TSF \$6,000,000
Western TSF \$2,750,000

Performance Dashboard

PERFORMANCE					
Transfer Weight 0.25	Governing Board	Dollars Awarded to Completion and Retention	Dollars Awarded to Volume Adjusted Awards	Dollars Awarded to Performance	
Certificate Weighting 0.25					
Associate Weight 0.5	Adams State University Board	\$884,007	\$4,091,388	\$4,976,296	Completion Weight 85%
	Colorado Mesa Board	\$1,773,358	\$2,963,170	\$4,736,528	
	Colorado School of Mines Board	\$1,839,041	\$4,099,404	\$5,938,444	Retention Weight 15%
Baccalaureate Weight 1	Colorado State University Board	\$10,083,849	\$4,025,733	\$14,109,382	
	Community College System Board	\$12,961,229	\$2,369,501	\$15,330,730	URM Bonus 1.5
	Fort Lewis College Board	\$1,115,203	\$3,778,955	\$4,894,158	
Grad. Certificate Weight 0.25	Metro State University Board	\$5,203,529	\$3,662,867	\$8,866,396	Pell Bonus 1.5
	University of Colorado Board	\$17,393,403	\$4,006,089	\$21,399,492	
Master Weight 1.25	University of Northern Colorado Board	\$3,866,591	\$4,042,200	\$7,708,791	Priority Bonus 1.5
	Western State Board	\$630,845	\$3,995,195	\$4,626,039	
Specialist Weight 1.25	<p>Total Weighted Completions</p>				
Doctorate Weight 1.25					

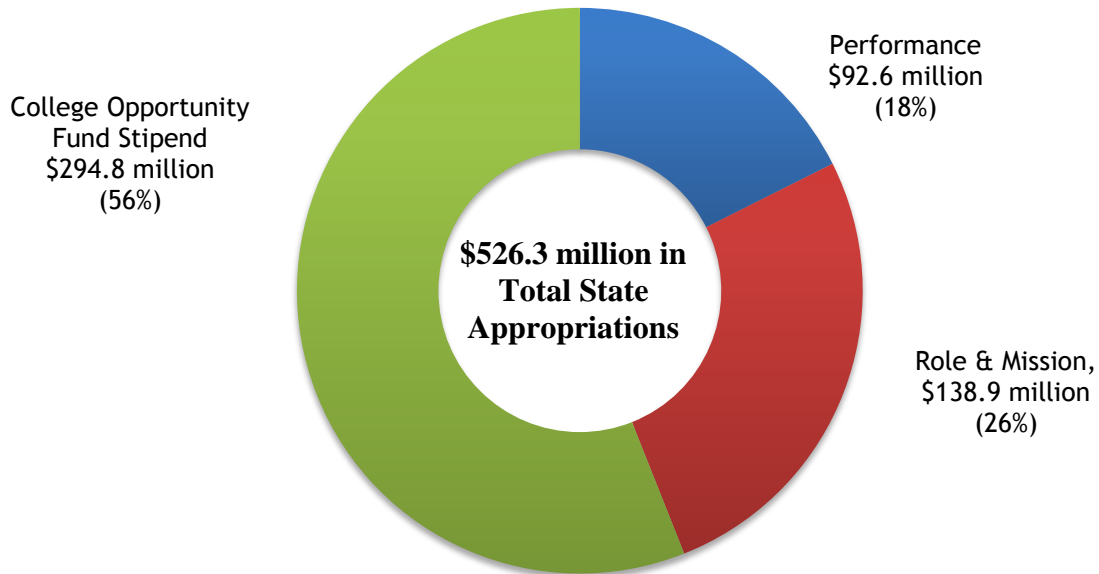
Volume Adjustment Factors	
Awards per SFTE	\$37,034,503
Completion & Retention	\$55,551,754
Total: Performance	\$92,586,257
Two-Pass Total on SFTE	
	100,27307
Volume Adjustment	40%
Volume Adjustment Total	100,27307

Final Model Output Dashboard

FUNDING BY GOVERNING BOARD										
Governing Board	Total Awarded from COF Stipend	Total Awarded from Role and Mission	Dollars Awarded to Performance	Total Allocation from Model	Total Allocation with SEP	Percentage Change (w/o SEP Included)	Percentage Change (with SEP Included)	Guardrail-Implemented Totals	Guardrail-Implemented Percentage Change	
Adams State University Board	\$3,016,992	\$5,977,972	\$4,976,295	\$13,971,259	\$13,971,259	8.81%	8.81%	\$13,961,407	8.74%	
Colorado Mesa Board	\$14,618,398	\$5,068,593	\$4,736,528	\$24,423,520	\$24,423,520	10.83%	10.83%	\$24,402,736	10.74%	
Colorado School of Mines Board	\$6,294,965	\$8,300,619	\$5,938,444	\$20,534,029	\$20,534,029	9.97%	9.97%	\$20,517,825	9.88%	
Colorado State University Board	\$44,044,384	\$21,762,988	\$14,109,382	\$79,916,754	\$133,247,272	8.69%	9.21%	\$79,861,112	8.62%	
Community College System Board	\$109,407,533	\$28,952,632	\$15,330,730	\$153,690,895	\$153,690,895	11.55%	11.55%	\$153,552,335	11.45%	
Fort Lewis College Board	\$4,549,191	\$2,524,642	\$4,894,158	\$11,967,992	\$11,967,992	12.93%	12.93%	\$11,956,065	12.81%	
Metro State University Board	\$31,767,193	\$10,236,637	\$8,866,396	\$50,870,227	\$50,870,227	16.05%	16.05%	\$50,353,372	14.87%	
University of Colorado Board	\$61,172,856	\$38,485,538	\$21,399,492	\$121,057,886	\$182,569,236	8.85%	9.23%	\$120,972,209	8.77%	
University of Northern Colorado Board	\$17,188,793	\$13,475,708	\$7,708,791	\$38,373,291	\$38,373,291	2.69%	2.69%	\$39,236,691	5.00%	
Western State Board	\$2,774,867	\$4,094,056	\$4,626,039	\$11,494,963	\$11,494,963	8.57%	8.57%	\$11,487,064	8.49%	

Governing Board	Percentage Change
Adams State University Board	8.81%
Colorado Mesa Board	10.83%
Colorado School of Mines Board	9.97%
Colorado State University Board	8.69%
Community College System Board	11.55%
Fort Lewis College Board	12.93%
Metro State University Board	16.05%
University of Colorado Board	8.85%
University of Northern Colorado Board	2.69%
Western State Board	8.57%

Appendix E. Summary of Model Components (FY 2015-16 Request)



College Opportunity Fund Stipend \$294.8 million (56% of Total State Appropriations)

Resident student stipends authorized under the College Opportunity Fund Program 23-18-201, et.seq. The COF stipend is set at \$75 per credit hour and is based on enrollment projections included in the 2014-2015 Long Bill.

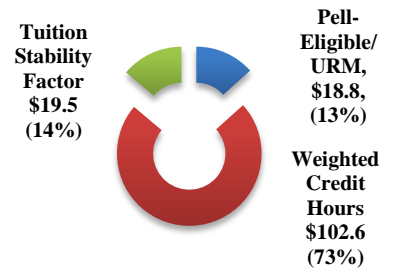
The COF stipend is set at \$75 per credit hour

Role & Mission \$138.9 million (26% of Total State Appropriations)

Role and mission fee-for-service contracts authorized under Section 23-18-303 (3) and comprised of 3 metrics:

1. Weighted Credit Hours. **Completed** student credit hours multiplied by a weighted discipline cluster according to a recognized cost-informed matrix
2. Pell-Eligible and Underepresented Minority Students (URM). Based on a percentage of the COF stipend, provides funding support for resident low-income and undderrepresented student populations
3. Tuition Stability Factor. Additional factor to help to ensure institutions can continue to comply with SB 1 and the 6% tuition cap.

Role & Mission Factors (\$ in millions)



Performance \$92.6 million (18% of Total State Appropriations)

Performance funding fee-for-service contracts authorized under Section 23-18-303 (4) C.R.S. and is comprised of two metrics:

1. Completion and Retention. Rewards institutions for number of students they transfer, retain, and confer degrees/certificates (60% of Performance Funding).
2. Volume Adjusted Awards, rewards performance in a manner that recognizes institutional performance in relation to size and capacity (40% of Performance Funding).

Performance Metrics (\$ in millions)





COLORADO

**Colorado Commission on
Higher Education**

Department of Higher Education

APPENDIX B



COLORADO

**Colorado Commission on
Higher Education**

Department of Higher Education

2016-17
COLORADO HIGHER EDUCATION FUNDING
ALLOCATION MODEL

October 2015

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Introduction

Each year, the Department prepares and the Colorado Commission on Higher Education (CCHE) approves an annual budget request for public colleges and universities, along with a student financial aid calibration. Pursuant to the enactment of H.B. 14-1319, allocations to governing boards are determined through the new higher education allocation and each year thereafter, the November 1 budget request shall include:

- (a) A detailed description of the fee-for-service contract factors, metrics, and values assigned for each
- (b) Specific details for each institution on how the fee-for-service contract is applied, the level of funding requested for each factor and metric.

Following the implementation of the new allocation model for FY 2015-16, the Department, governing boards and CCHE recognized refinements were needed. Beginning in spring 2015, the Department of Higher Education (DHE) convened a Funding Allocation Model Review Team, which was comprised of a representative from each governing board and Office of State Planning and Budgeting (OSPB), to review the allocation model, and to provide and respond to recommended changes to the model. Additionally, the Joint Budget Committee (JBC) provided seven (7) Requests for Information (RFI) related to the funding allocation model.

The overarching goals of the review process and subsequent changes to the allocation formula were to provide a simple, clear and sustainable model that implements the legislation and provides incentives to institutions to meet the policy objectives of the Colorado Commission on Higher Education's Master Plan.

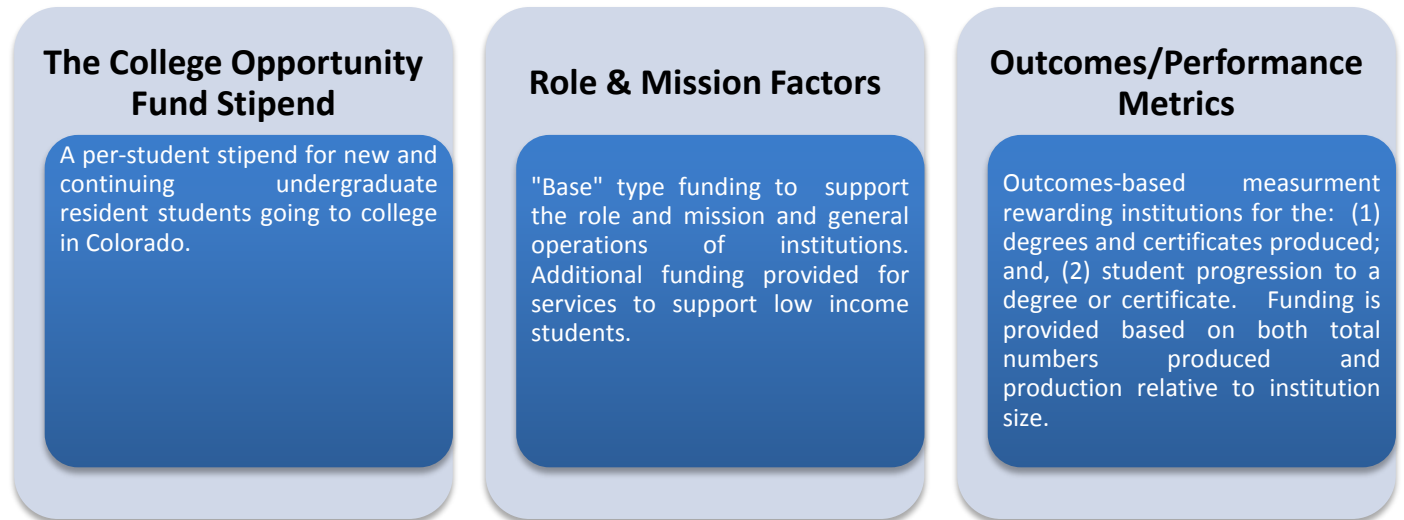
The report summarizes the higher education funding allocation model framework, changes and finalized components.

This report provides the higher education funding allocation model and includes:

- Overview of the Higher Education Funding Allocation Formula/Model
- Model review process
- Model component weights and definitions
- FY 2016-17 Model
- Response to Joint Budget Committee Requests for Information

Overview of the Higher Education Funding Allocation Model

As required by HB 14-1319, the higher education funding allocation Model consists of three sections:



Within each section there are individual components based on the statutory requirements in H.B. 14-1319:

Role & Mission:

- **Mission Differentiation** - This factor provides funding to offset programmatic costs and support for each institution's unique role and incorporates all factors outlined in the Role & Mission section of HB 14-1319.
- **Support Services for Pell-eligible Students** - Provides additional resources to institutions for meeting the needs of and providing services to low income students. The calculation is based on a percentage of the COF Stipend and the number of resident students meeting the criteria.

Outcomes/Performance:

- **Completion & Retention** - This metric rewards an institution's performance based on the number of students who transfer from a two-year to a four-year institution after completing at least 18 credit hours; number of certificates/degrees conferred; and number of students who make academic progress of 25%, 50%, and 75% in the relative two-year or four-year program.

Institutional Productivity - This metric rewards an institution's performance in relation to their size compared to the other state governing board institutions in Colorado. This addresses concerns about small institutions' inability to compete for performance dollars and recognizes rates of productivity.

Important Statutory Requirements for Appropriations

Pursuant to section 23-18-303, Specialty Education Programs, Area Vocational Schools and Local District Junior Colleges (also excludes student financial aid and capital funds) do not

receive their allocations through the model. Funding for these programs must be equal to the preceding year, plus-or-minus the same change in the Total State Appropriation.

Total State Appropriation (TSA)

Total state appropriation means, for a state fiscal year, the sum of the total amount appropriated to the governing boards of the state institutions of higher education for fee-for-service contracts determined pursuant to section 23-18-303, C.R.S and the amount of the appropriation to the college opportunity fund established in section 23-18-202, C.R.S. for student stipends. *Section 23-18-302 (10), C.R.S.*

Appropriations for Specialty Education Programs (SEP), Area Vocational Schools (AVS) and Local District Junior Colleges (LDJC)

Funding must be equal to such contract for the preceding year, plus-or-minus the same change in the *total state appropriation* and allows for a funding increase for these programs in excess of the percentage increase in the *total state appropriation*, or a decrease less than percentage decrease in the *total state appropriation*. *Section 23-18-304, C.R.S.*

Review Process and Changes to the Higher Education Funding Allocation Model

Following the implementation of the new allocation model for FY 2015-16, the Department, governing boards and C CHE recognized refinements were needed. As part of the review process, the Department utilized an inclusive and collaborative process to discuss the development and implementation of any needed modifications. This has included the formation of a Funding Allocation Model Review Team (FAMRT), which is comprised of representatives from each governing board and OSPB. Since April, this team spent countless hours working to improve the model. The overarching goals of the review process were to simplify and reduce the volatility of the model, as well as to ensure the model could work under various budget scenarios, such as funding reductions.

Additionally, the Joint Budget Committee provided seven Requests for Information (RFI) related to the funding allocation model. A majority of these RFIs focused 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 during a Department update to the Committee on June 19, 2015.

The first phase of the work involved bringing the model in house to the department from the vendor, National Center for Higher Education Management Systems, and conducting a thorough technical review of every aspect of the model. The Department identified and made technical corrections, which were vetted through the Funding Allocation Model Review Team (FAMRT).

Through the second phase of work, the Department and review team addressed needed structural changes to the allocation model. After analysis and input from with the review team, Department staff and Funding Allocation Model Review Team concluded two areas needed refinements to make the model simpler and less volatile:

- The Tuition Stability Factor (Role & Mission) and its role in creating a less volatile representation of Role & Mission; and
- The influence and mechanics of the Volume Adjusted Awards (Performance), which created issues regarding the intuitiveness of model.

Changes to Role & Mission

In the 2015-16 allocation model, Role & Mission was based on three factors:

- Weighted Student Credit Hours;
- Pell as Percentage of the College Opportunity Fund Stipend; and
- The Tuition Stability Factor.

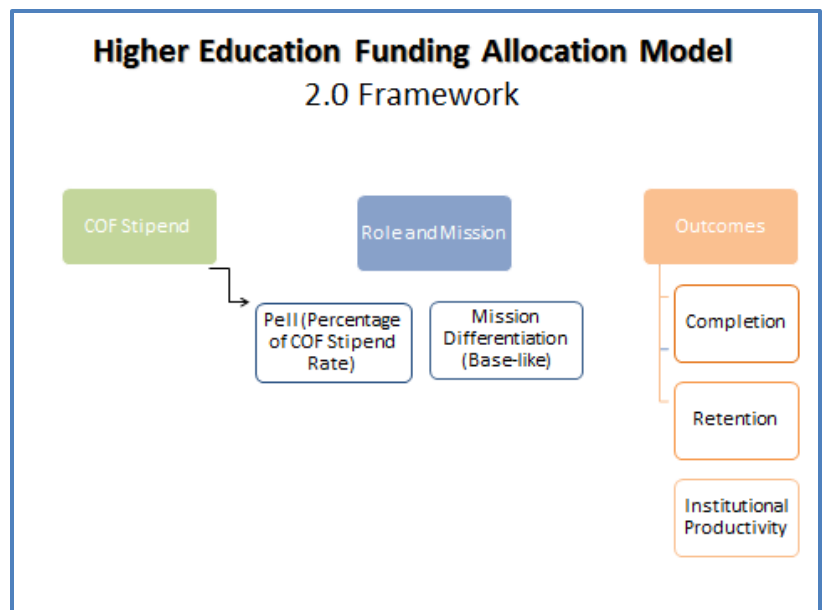
In particular, the Tuition Stability Factor was identified as area for immediate improvement. After conducting further analysis, it was also determined that the Weighted Student Credit Hour created additional volatility, as it was primarily driven by changes in production at institutions in an already production heavy model. The review team concluded that Role and Mission funding should provide a counterbalance to the enrollment/volume driven nature of the College Opportunity Fund (COF) stipend and the statutorily required counts of awards conferred on the Performance side of the model.

Solution

Change the nature of Role and Mission funding: Capture the role and mission of each governing board (i.e., size, location, selectivity, cost of programs) by eliminating weighted student credit hours and the tuition stability factor and replacing these with a factor that captures “mission differentiation,” which is based on the outputs from the fiscal year (FY) 2015-16 funding allocation model along with institution type and size.

Modifications to Outcomes/Performance

Within the Outcomes/Performance component, the influence of the “Volume Adjusted Awards” metric hurt the intuitiveness of the first version of the model. However, without this metric, the entire outcome/performance component of the model would be driven by counts, making it difficult for smaller institutions, such as the high performing Colorado School of Mines, to earn performance funding.



Solution

Capping the Volume Adjusted Awards Metric and renaming it Institutional Productivity: By placing a monetary cap on this metric, any new additional dollars flow directly to the Completion and Retention Metric. Capping the amount of funding flowing through the Institutional Productivity balances the importance of increasing award attainment (counts) and the efficiency of increasing award attainment (awards per FTE student).

Funding Allocation Model Definitions and Weights

College Opportunity Fund Stipend

Student stipends are authorized under the College Opportunity Fund Program (23-18-201, et.seq.); and must be at least 52.5 percent of “total state appropriation” Section 23-18-305 (2) (a), C.R.S.

College Opportunity Fund (COF) Stipend		
Measurement in HB 14-1319 Model	Stipend Rate	% of TSA
Based on FY 2014-15 COF actuals.	\$75	54.7%

Role & Mission

The Performance metrics reward institutions for the number of credentials awarded and students transferred [23-18-303(4)(a), C.R.S.]; as well as academic progress/retention [23-18-303(4)(b), C.R.S.]. These metrics are based on the count of credentials awarded and transferred by a governing board and the student counts of those who are reaching these thresholds at each institution in a given academic year. In addition, the CCHE Funding Allocation Model includes an additional metric pursuant to 23-18-303 (4)(c), C.R.S. that rewards performance in a manner which recognizes institutional performance in relation to their size and capacity.

As required in statute, the model includes specific weights for different academic award levels and identifies STEM and health care as “high priority” programs that receive a higher weight. Additional bonuses are provided for completions awarded to and transfers of Pell-eligible students (required by statute).

Role & Mission Factor Definitions and Data Sources		
Factor	Definition	Date Source/Year
Mission Differentiation	Based on the outputs from the FY 2015-16 funding allocation model and institution type and size that represents mission differentiation for each governing board (i.e., size, location, selectivity, cost of programs). This base type figure is a one-time calculation.	Outcomes of FY 2015-16 Allocation Model
Support Services for Pell-eligible Students	Credit hours for resident undergraduate Pell eligible students summed by institution. Use Pell-eligible credit hours as a percent of the College Opportunity Fund (COF) stipend (must never be less than 10 percent of COF).	Student Unit Record Data System (SURDS)/ Academic Year

	(AY) 2014-15
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More on Mission Differentiation

The Mission Differentiation factor is calculated using the FY 2015-16 funding model allocation output for Role and Mission and Performance multiplied by the institution’s tier percentage which is based on the type of institution and number of full time equivalent students it serves (Chart A Supplemental). For example, Adams State University is in tier C5 (Comp 4 year with under 2,500 SFTE). The tier percentage of 75 percent is multiplied by the allocation of \$11,106,275 to determine their Mission Differentiation amount of \$8,329,706.

To account for the different types of institutions within a governing board, the percentage of SFTE for each institution is calculated as a percentage of the governing board total SFTE. For example, the Colorado State University governing board is comprised of CSU-Fort Collins which enrolls 85.9% of their students and CSU-Pueblo enrolls 14.1% for a total of a 100 percent. The SFTE percentage is multiplied by the governing board’s model outcomes to create an individual dollar amount for each institution (Chart A, Column G) to then be multiplied by the tier percentage, which generates their Mission Differentiation amount.

Mission Differentiation by Institution								
A	B	C	D	E	F	G	H	I
Type	Institution	Tier	FY 2015 SFTE	SFTE Percentage of Governing Board Total	15-16 Model Outcomes by Governing Board	15-16 model Outcomes * % SFTE (E*F)	Tier Percentage (See Supplemental Chart)	Mission Differentiation (G*H)
Research								
	CSU Ft. Collins	R2	23,135	85.9%	\$36,830,679	31,624,026	50%	15,812,013
	CU-Boulder	R1	26,712	57.8%	\$60,884,140	35,188,393	45%	15,834,777
	UNC	R3	8,954	100.0%	\$23,915,186	23,915,186	68%	16,142,751
	Mines	R3	5,529	100.0%	\$14,255,738	14,255,738	68%	9,622,623
Comp 4 Year								
	Adams	C5	2,325	100.0%	\$11,106,275	11,106,275	75%	8,329,706
	CU-Denver	C2	10,445	22.6%	\$60,884,140	13,759,463	50%	6,879,731
	CU-Co Spr	C3	9,061	19.6%	\$60,884,140	11,936,284	60%	7,161,771
	CSU - Pueblo	C4	3,809	14.1%	\$36,830,679	5,206,653	68%	3,514,491
	Ft. Lewis	C4	3,543	100.0%	\$7,276,606	7,276,606	68%	4,911,709
	Mesa	C3	7,399	100.0%	\$9,855,958	9,855,958	60%	5,913,575
	Metro	C1	16,111	100.0%	\$18,540,331	18,540,331	45%	8,343,149
	Western	C5	1,991	100.0%	\$8,871,375	8,871,375	75%	6,653,531
2 Year								
	CCCS Large Urban	A	21,436	40.4%	\$44,055,048	17,813,483	45%	8,016,068

	CCCS Med Urban	B	25,267	47.7%	\$44,055,048	20,997,074	60%	12,598,245
	CCCS Small Rural	C	6,311	11.9%	\$44,055,048	5,244,490	65%	3,408,919

Mission Differentiation Supplemental Chart		
Mission Differentiation Tiers		
Tier	FTE Range	Tier Percentage
Research		
R1	25,000+	45%
R2	15,000 to 25,000	50%
R3	Under 15,000	68%
Comp 4-year		
C1	15,000+	45%
C2	10,000 to 15,000	50%
C3	5,000 to 10,000	60%
C4	2,500 to 5,000	68%
C5	Under 2,500	75%
2-year		
A	7,500 +	45%
B	1,500 to 7,500	60%
C	< 1,500	65%

Role & Mission Factor Weights	
Factor	Weight
Mission Differentiation	N/A (flat dollar amount).
Pell-eligible	10% of the COF Stipend

Outcomes/Performance

The Performance metrics reward institutions for the number of credentials awarded and students transferred [23-18-303(4)(a), C.R.S.]; as well as academic progress/retention [23-18-303(4)(b), C.R.S.]. These metrics are based on the student counts at each institution who are reaching these thresholds. In addition, FY 2016-17 funding allocation model includes an additional metric pursuant to 23-18-303 (4)(c), C.R.S. that rewards performance in a manner that recognizes institutional performance in relation to their size and capacity.

As required in statute, the model includes specific weights related to the academic award level and identifies STEM and health care as “high priority” subjects that receive a higher weight. Additional bonuses are provided for completions awarded to and transfers of Pell-eligible (required by statute).

Completion and Transfer weights are as follows:

Outcomes/Performance Metric Definitions and Data Sources		
Metric	Definition	Data Source/ Year
Completion	<p>The number of certificates or degrees awarded an institution and the number of students who transfer from a community college to another institution after the completion of a minimum of 18 credit hours. The amount to be awarded for each certificate or degree is based on the subject and level of the credential.</p> <p>Certificates will be counted when issued for:</p> <ul style="list-style-type: none"> • Programs spanning one year (24 credit hours) or more; or • Programs less than one year (24 credit hours) and meeting the federal “gainful employment” definition, or representing the highest award earned at stop-out. When multiple certificates of less than one year are earned by a student then only one is counted. <p>Students earning multiple certificates in an academic year will have each earned certificate count as a separate outcome. A community college that receives an incentive for a transfer student cannot also receive a retention bonus for that student in the same year.</p> <p>The value shall be increased for each credential earned by or transfer of a Pell-eligible undergraduate student.</p>	Student Unit Record Data System (SURDS)/ AY 2014-15
Retention	<p>The number of students who make the following steps of academic progress:</p> <p>Four-year institutions -number of students who cross the threshold of completing:</p> <ul style="list-style-type: none"> • 30 credit hours • 60 credit hours • 90 credit hours <p>Two-year institutions - number of students who cross the threshold of completing:</p> <ul style="list-style-type: none"> • 15 credit hours • 30 credit hours • 45 credit hours <p>Concurrent enrollment will be included and each student will be counted only once at each academic progress interval. Students crossing multiple progress intervals are counted in the highest interval.</p>	Student Unit Record Data System (SURDS)/ AY 2014-15

Outcomes/Performance Metric Definitions and Data Sources		
Metric	Definition	Data Source/Year
Institutional Productivity	<p>Calculated by:</p> <ol style="list-style-type: none"> 1. Dividing an institutions total weighted degree total by Student Full-time Equivalent (SFTE) = "Awards per FTE" 2. Indexing individual institutions' "Awards per FTE" to the state average "Awards per FTE" 3. Multiply "indexed awards per FTE" by total "awards per FTE" funding to get allocation by institution for this metrics 	<p>Student Unit Record Data System (SURDS)/ AY 2014-15</p> <p>Budget Data Book</p>

Outcomes/Performance Metric Weights

Completion and Transfer Weights	
Credential Level	Weight
Transfer	.25
Certificates	0.25
Associates	0.50
Bachelors	1.00
Graduate Certificate	0.25
Masters	1.25
Specialists	1.25
Doctoral	1.25

Additional Undergraduate Completion/Transfer Bonus for Priority Populations	
Type	Additional Bonus
Pell-Eligible	1.6
STEM and Health	1.5

Retention Weights (completed credit hours)	
Credit Hours Accumulated	CCHE Adopted Model Weight
15/30	.25
30/60	.50
45/90	.75

After the points have been calculated for the completion and retention metrics, weights are then uniformly applied to the counts for each institution.

Completion and Retention Metric Weights	
Completion	85%
Retention	15%

Institutional Productivity
This metric functions as a “carve out” off the top of the amount allocated to the Performance component of the model and is capped at \$10 million.

FY 2016-17 Higher Education Funding Allocation Model

Budget Overview *(Does not represent actual allocations as numbers may vary due to rounding)*



COLORADO
Department of
Higher Education

Funding Allocation Model (Draft)

Fiscal Year 2016-17

FUNDING ALLOCATIONS

Total Appropriations for Higher Education

Full Appropriations for Higher Education	\$652,847,185
Specialty Education Programs Amount	\$112,957,776
Local District Junior College Amount	\$15,768,520
Area Vocational Schools Amount	\$9,675,895
New Total State Appropriations for Model (TSA)	\$514,444,994

Budget Percentage Increase

-2.966501%

SEP Additional Increase

0.00%

COF Stipend

Total Awarded from COF Stipend	\$281,646,532
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COF Stipend per Credit Hour

573

Percent of Appropriation Dedicated to COF Stipend

54.7%

COF Stipend must be 52.5% or greater.

Role & Mission and Performance Allocations

Total in Role and Mission Allocation	\$139,773,421
Total: Performance	\$93,025,041

Role and Mission Split Percentage

60%

Performance Split Percentage

40%

**Note: Input dollar amounts are rounded to the nearest whole dollar, and may differ slightly from Total State Appropriations due to rounding.

Role & Mission (Does not represent actual allocations as numbers may vary due to rounding)



COLORADO
Department of
Higher Education

Funding Allocation Model (Draft)

Fiscal Year 2016-17

User: Emma Beck

Pell Percentage Weight
10.0%

ROLE AND MISSION

Role & Mission Final Output

Governing Board	Dollars Awarded to Pell	Mission Differentiation	Total Awards from Role and Mission
Adams State University	\$175,817	8,079,815	\$8,255,632
CCCS	\$4,325,730	23,302,534	\$27,628,264
Colorado Mesa University	\$571,451	5,736,168	\$6,307,619
Colorado School of Mines	\$145,390	9,333,944	\$9,479,335
CSU System	\$1,187,192	18,746,709	\$19,933,900
CU System	\$1,994,776	28,979,890	\$30,974,767
Fort Lewis College	\$130,962	4,764,358	\$4,895,320
Metropolitan State University of Denver	\$1,435,034	8,092,854	\$9,527,888
University of Northern Colorado	\$557,340	15,658,468	\$16,215,808
Western State Colorado University	\$100,963	6,453,925	\$6,554,888
Grand Total	\$10,624,656	129,148,766	\$139,773,421



Outcomes/Performance (Does not represent actual allocations as numbers may vary due to rounding)



COLORADO
Department of
Higher Education

Funding Allocation Model (Draft)

Fiscal Year 2016-17

PERFORMANCE

Transfer Weight

Certificate Weighting

Associate Weight

Baccalaureate Weight

Grad. Certificate Weight

Master Weight

Specialist Weight

Doctorate Weight

Governing Board	Completions, Retention, and Transfer along Table (Down)	Institutional Productivity	Total Awards from Performance
Adams State University	\$1,664,939	\$1,113,561	\$2,778,499
CCCS	\$16,475,599	\$716,497	\$17,192,096
CSU System	\$15,310,297	\$1,058,650	\$16,368,947
CU System	\$27,062,622	\$1,064,314	\$28,126,936
Colorado Mesa University	\$3,084,714	\$920,567	\$4,005,281
Colorado School of Mines	\$3,557,972	\$1,090,841	\$4,648,813
Fort Lewis College	\$1,475,635	\$951,281	\$2,426,916
Metropolitan State University of Denver	\$7,762,989	\$1,007,324	\$8,770,313
University of Northern Colorado	\$5,713,238	\$1,087,217	\$6,800,455
Western State Colorado University	\$915,483	\$989,750	\$1,905,234

Volume Adjustment Factors

SFTE Carveout	10,000,000
Completion & Retention	\$83,025,041
Total: Performance	\$93,025,041

Total of Indexed Weighted Awards

Enter Total of Indexed Weighted Awards

Completion Weight

Retention Weight

URM Bonus

Pell Bonus

Priority Bonus

Final Output (Does not represent actual allocations as numbers may vary due to rounding)



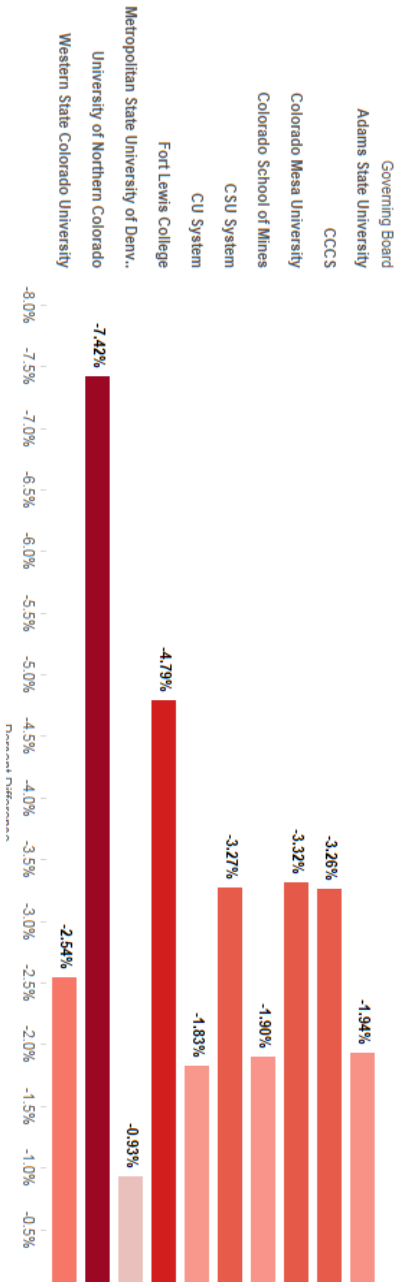
COLORADO
Department of
Higher Education

Funding Allocation Model (Draft)

Fiscal Year 2016-17

FUNDING BY GOVERNING BOARD

Governing Board	Total Awarded from COF Stipend	Total Awards from Role and Mission	Total Awards from Performance	Final Allocation Before Guardrails	Percentage Change - No SEP	Final Allocation with SEP Included	Percentage Change with SEP	Final Guardrail Allocation	Final Guardrail Percentage Change
Adams State University	\$2,813,542	\$8,255,632	\$2,778,499	\$13,847,673	-1.94%	\$13,847,673	-1.94%	\$13,847,673	-1.94%
CCCS	\$103,633,986	\$27,628,264	\$17,192,096	\$148,454,346	-3.26%	\$148,454,346	-3.26%	\$148,454,346	-3.26%
CSU System	\$41,899,776	\$19,933,900	\$16,368,947	\$78,202,623	-3.27%	\$130,420,510	-3.15%	\$78,202,623	-3.27%
CU System	\$60,689,806	\$30,974,767	\$28,126,936	\$119,791,509	-1.83%	\$180,531,398	-2.21%	\$119,791,509	-1.83%
Colorado Mesa University	\$13,340,658	\$6,307,619	\$4,005,281	\$23,653,558	-3.32%	\$23,653,558	-3.32%	\$23,653,558	-3.32%
Colorado School of Mines	\$6,029,345	\$9,479,335	\$4,648,813	\$20,157,493	-1.90%	\$20,157,493	-1.90%	\$20,157,493	-1.90%
Fort Lewis College	\$3,933,335	\$4,895,320	\$2,426,916	\$11,255,571	-4.79%	\$11,255,571	-4.79%	\$11,255,571	-4.79%
Metropolitan State University of Denver	\$31,388,814	\$9,527,888	\$8,770,313	\$49,687,015	-0.93%	\$49,687,015	-0.93%	\$49,687,015	-0.93%
University of Northern Colorado	\$15,029,121	\$16,215,808	\$6,800,455	\$38,045,384	-7.42%	\$38,045,384	-7.42%	\$38,045,384	-7.42%
Western State Colorado University	\$2,888,149	\$6,554,888	\$1,905,234	\$11,348,271	-2.54%	\$11,348,271	-2.54%	\$11,348,271	-2.54%



Response to Joint Budget Committee Requests for Information

DHE 25 (related to the HB 14-1319 Funding Allocation Model)

Department of Higher Education, Colorado Commission on Higher Education, Administration - The Joint Budget Committee requests that during the annual review process of the new funding allocation model the Department consider the following policy issues, include with their annual budget request, due November 1, 2015, a report on how these issues were examined, incorporated into the current model, or otherwise decided upon, and make recommendations for changes to the model, if needed, including identifying any needed funding to implement.

- a) **Examine the role of the “Tuition Stability Factor” within the model and how it should be utilized in the future.**

The 2016-17 model no longer includes the Tuition Stability Factor.

In the 2015-16 model, the Tuition Stability Factor was used to balance the funding formula and to ensure that institutions could continue to comply with the College Affordability Act, which included a 6 percent tuition cap on resident tuition. However, as noted by the Department this factor needed to be refined and/or eliminated. During the review process, it was determined that a “base” type figure was the appropriate approach to the Role & Mission portion of the model. The resulting change was the elimination of the Tuition Stability Factor and the Weighted Student Credit Hour Factor. These factors were replaced by the Mission Differentiation Factor, which represents the role and mission of each institution (i.e., size, location, selectivity, cost of programs) and is based on the outputs from the FY 2015-16 funding allocation model, as well as institution type and size. The utilization of this factor simplifies the model and reduces volatility.

- b) **Examine the feasibility, cost, and benefit to weighting resident and non-resident students within the model.**

H.B. 14-1319 makes no distinction on the treatment of non-resident students. During the 2015-16 allocation model development process, the question was raised to stakeholders about the types of students to be included within the factors and metrics of the model - should the model count all students or resident students only? The legislation was intentionally silent on this issue, purposefully leaving it to the project process to address.

A robust discussion took place over several Funding Allocation Model Expert Team and Executive Advisory Group meetings before a final recommendation was developed and forwarded to CCHHE for action. In these discussions a number of important policy issues were vetted - public perception; recognizing overall institutional performance; understanding the inability to separate programmatic

costs associated with resident and non-resident; and, providing incentives to achieve statewide performance goals.

The Colorado Commission on Higher Education's Master Plan - [Colorado Competes, A Completion Agenda for Higher Education](#) - focuses on the achievements of all students in Colorado. In addition, the legislation itself calls for recognizing the total number of students performing under "transfers", "retention", and "completions".

Further, after reviewing prior fee-for-service contracts there has not been a distinction between services provided to residents versus services provided to non-residents under the previous funding allocation process. On campuses, services are made available to all students and are not segregated by student residency status; and, classrooms have both residents and non-residents in courses studying alongside one another.

- c) Examine the feasibility, cost, and benefit to program the ability to download model settings and funding results into an Excel spreadsheet format for any given "run" of the model; allowing users to compare the impact of various model settings without excessive data entry.
- d) (i) Ensure the ability for all concerned parties to examine data used by the model; and (ii) examine the feasibility, cost, and benefit to program a mechanism into the model that would allow for consideration of how model results would change with different underlying data, e.g., data from prior years.

In response to c and d, the Department created an Excel-based version of the funding allocation model. This tool provides additional access to the formulas, data tables and the order of operations used in each section of the model. Additionally, this tool allows users to develop and compare "model scenarios" without excessive data entry.

The development of this tool and bringing the model "in house" from the National Center for Higher Education Management Systems, the Department has been able to provide full access to underlying data to the governing boards.

In tandem, the Excel and Tableau versions of the model allow users of all knowledge levels to access the higher education allocation funding model in an understandable and transparent manner.

- e) Examine the feasibility, cost, and benefit to program a mechanism to run the model so that an adjustment to any particular model setting or value does not change the funding allocation associated with other model components but instead increases or decreases the total model funding - thus enabling an increase or decrease support for services (such as Pell-eligible students or

masters degrees awarded) without simultaneously reducing funding to other model components.

The changes to the funding allocation model for 2016-17 and the creation of the Excel-based version of the model allow for an adjustment to be made to isolated parts of the model without affecting the other model components. For example, it is now possible to change the funding for Pell-eligible students without affecting the other various factors and metrics in the model.

Because of these changes, policy makers now have a far more powerful tool for supporting increased postsecondary student attainment and flexibility to make adjustments in order to meet evolving state-wide goals.

- f) Continue to examine how performance funding is awarded to incentivize increased completions, retentions, and transfers. In particular:
- I. Explore why increasing the proportion of funding directed to performance in the FY 2015-16 model reduces funding to the state's more selective institutions. Does this indicate a need for further changes to the model?
 - II. Explore how changes in the numbers of degrees awarded at small versus large governing boards could affect performance funding for each, given FY 2015-16 model settings and recent trends in degrees awarded at boards of different sizes.

Within the Outcomes/Performance component, the influence of the metric called "Volume Adjusted Awards" hurt the intuitiveness of the first version of the model. However, without this metric, the entire outcome/performance component of the model would have been driven by counts.

In order to make the model more intuitive and take into consideration institutional size so that all governing boards could compete within the outcomes/performance component, the 2016-17 funding allocation model caps Institutional Productivity (formerly called Volume Adjusted Awards Metric) at \$10 million. This change results in any funding added to performance to flow through the Completion/Retention counts based metric.

In combination with the addition of the Mission Differentiation factor, the Performance portion of the model is now more intuitive and clearly demonstrates the importance of increasing the number of credentials to final allocations to Governing Boards. Also, the change allows for smaller governing boards and more selective institutions the opportunity to compete for Outcomes/Performance funding.

- g) Examine the feasibility, cost, and benefit to incorporating total institutional revenue within the model.

Through the development of the Mission Differentiation Factor the Department explored several options of incorporating total revenues within the model. However, the Funding Model Review Team expressed concern with this type of approach and felt greater study is required. Additionally, given that the Department and Governing Boards have been working to develop new tuition policies, incorporating total institutional revenues should be discussed after the finalization of the new tuition policies.



CO L O R A D O

**Colorado Commission on
Higher Education**

Department of Higher Education

APPENDIX C



COLORADO

**Colorado Commission on
Higher Education**

Department of Higher Education

Report on the Development of New Tuition Policies

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LT. GOVERNOR JOSEPH GARCIA, EXECUTIVE DIRECTOR

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Introduction

In Colorado and across the nation, the rising cost of college tuition is receiving considerable public attention. At the same time, the importance of having a postsecondary credential has never been more important. The postsecondary credential a student earns can provide substantial returns on investment in the form of higher income and greater employment opportunities. Equally important, Colorado's Master Plan calls for increasing the attainment of high quality postsecondary credentials to meet anticipated workforce demands by 2025. However, Colorado's decade-long shift from a funding model, largely supported by state appropriations, to one primarily dependent on tuition revenues has challenged institutions' ability to balance operational realities with the need to provide affordable access to higher education for Colorado families.

HB 14-1319 directed the Colorado Commission on Higher Education (the Commission, CCHE) to submit to the General Assembly by November 1, 2015, new tuition policies that ensure both accessible and affordable higher education for Colorado residents, while reflecting the level of state funding for institutions, and the need of each institution to enhance its financial position and sustainability. In addition, the Commission is statutorily required to provide a tuition policy recommendation with the annual budget request.

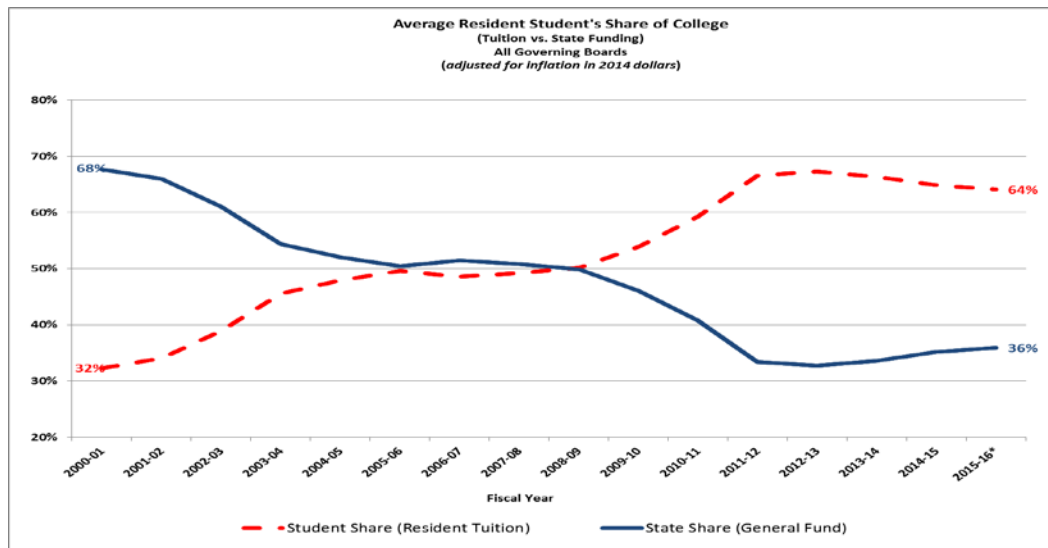
Last fall, the Department of Higher Education (the Department, DHE) conducted a statewide public education and outreach process to gather input about higher education, and one of the top priorities identified was affordability. Concurrently, as part of the implementation plan for HB 14-1319, the Department established a Cost Driver and Analysis Expert Team to provide the Commission with a thorough analysis of what is driving costs of higher education in Colorado. The results of this analysis found that Colorado's public institutions, of all types, have fewer resources with which to support basic operations than do similar institutions in nearly all other states.

The Charge

Pursuant to HB 14-1319, by November 1, 2015, CCHE shall submit to the Legislature tuition policies that ensure both accessible and affordable higher education for residents.

- Tuition policies must also reflect:
 - Level of state funding needed for institutions
 - The need of each institution to enhance the quality of programs and offerings to strengthen their financial position
- Tuition policy recommendations must be developed in consultation with governing boards and interested parties using an inclusive and transparent process.

The last 15 years have witnessed a marked reversal in who bears the burden of higher education costs. As General Fund support is reduced, tuition increases make up the difference - resulting in higher costs for students and families. As illustrated below, in FY 2000-01, the state supplied 68 percent of the cost of college, while students and families paid 32 percent. By FY 2011-12, those numbers had reversed: students and families were covering two-thirds of the costs and the state was paying for a third.



In fiscal years 2014-15 and 2015-16, Colorado's public institutions witnessed their smallest year-over-year percent increase in tuition rates in more than a decade. This was largely the result of increases in General Fund support for higher education.

Finding the right balance between the seemingly opposing ideas of affordability for families and strengthening the financial position of institutions, is at the core of the Commission's tuition policy process and recommendation. Also of critical importance is the understanding that state appropriations are the fundamental incentive that will keep tuition low while also enhancing the quality of Colorado's public institutions of higher education.

This report brings forth recommendations that represent a comprehensive analysis of tuition policies, which can be used in Colorado to promote greater affordability, operational stability and funding flexibility at the state public postsecondary institutions. Most importantly, the Commission's new tuition policy signals a paradigm shift from the historic method of limiting tuition increases in footnote of the Long Bill, or through special legislation, to a cost-driven approach, which makes a persuasive case for additional state funding.

Process for Developing New Tuition Policies

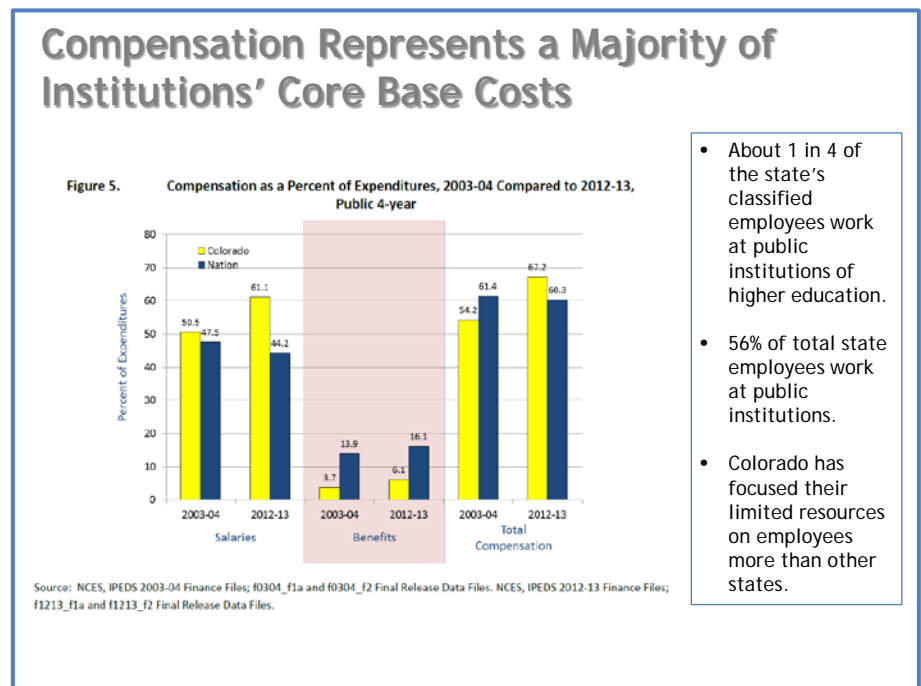
The charge to develop new tuition policies comes at a time when the rising cost of tuition is receiving considerable public attention nationwide; this holds true in Colorado, as well. The Colorado Commission on Higher Education and the Department of Higher Education, in

consultation with the governing boards and other interested parties, conducted a comprehensive analysis of higher education costs and tuition policies that could be used to promote greater affordability, operational stability and funding flexibility at the state public postsecondary education institutions.

The Department contracted with the National Center for Higher Education Management Systems (NCHEMS) to analyze higher education costs in Colorado, and how these compared to national costs (*Why Higher Education Costs are What They Are and Tuition-Setting Practices in Colorado's Public Colleges and Universities*). In addition, the Department established a Cost Driver and Analysis Expert Team—comprised of individuals from Colorado's 10 governing boards, the Colorado Commission on Higher Education and the Office of State Planning and Budgeting—to advise, provide feedback, review and work with NCHEMS throughout their analysis process. The hard work and insight provided by the Cost Driver team members was a valuable and essential component of the tuition policy process.

Higher education is fundamentally a personnel-heavy, knowledge-based business. 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, interest, depreciation and operating expenses (utilities, insurance, office and laboratory supplies, maintenance of plant etc.). The report also found that:

- Colorado institutions have fewer resources to expend on activities designed to fulfill their missions than do other similar institutions elsewhere in the country.
- Colorado institutions are spending an increasing share of their resources on faculty and staff.
- Colorado institutions are more reliant on part-time faculty as a cost cutting measure than their national counterparts.

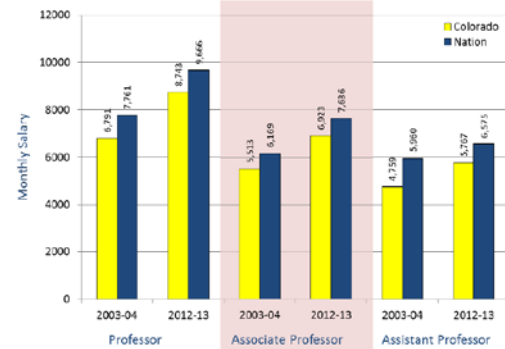


- Since such a large portion of institutional revenue comes from tuition, setting tuition rates is a high stakes endeavor, which is strongly impacted by changes in state funding. Despite all of this, Colorado is doing a better job, as compared to other states, of providing opportunities to the lowest income students and families.

Colorado Institutions' Compensation is Lower than National Average

- Individual employee's compensation at Colorado's public institutions is lower than the national average for all public institutions.

Figure 15. Monthly Salary Comparisons, 2003-04 Compared to 2012-13, Public 4-Year



Source: NCEES, IPEDS 2003-04 Faculty Salary File; sal2003_a Final Release Data File. NCEES, IPEDS 2012-13 Faculty Salary File; sal2012_13 Provisional Release Data File.

Department staff, NCHEMS representatives and the Cost Driver Analysis Team collected, analyzed, and synthesized vast quantities of data over the course of fall 2014 through spring 2015. This significant undertaking culminated in the summer of 2015, bringing together commissioners, subject matter experts and other stakeholders at the CCHE retreat to establish new tuition policies.

Developing a Framework

As the Commission, the governing boards, and other interested parties worked cooperatively to structure an ongoing tuition policy for the state, it was determined that articulating a set of values would be helpful in finding the right balance between affordability for students and sustainability of the institutions, especially in light of the current, somewhat challenging, state budget environment.

Value 1: State Investment in Higher Education

All of Colorado's public institutions of higher education have fewer resources to support basic operations than do similar institutions in other states. This low level of funding means that Colorado institutions are less able to absorb revenue shortfalls through productivity enhancements. State appropriations are the key incentive to keeping tuition low and play the biggest role in determining the actual tuition

At public institutions, successful tuition policy will likely be linked to state appropriations. Because so many institutions rely on appropriations and tuition as primary sources of revenue, a decline in one revenue source means the other one must increase or costs must decrease.

-National Conference of State Legislatures, September 2015

rate charged to students. The extent to which state funding increases or decreases is directly linked to the extent tuition increases can be limited.

Value 2: Tuition Impact on Students and Families

Incorporating student and family-focused measures of affordability is an important and evolving value. This is especially relevant as students and families bear more and more of the support cost for public postsecondary education in Colorado. Substantial reductions in state support have shifted the majority funding burden of higher education to students and families. As illustrated above by, in fiscal year 2001, the state covered 68 percent of the cost of postsecondary education, while students and families paid the remaining 32 percent. Despite increases in state investment in the last two years, the state's share is only 36 percent, while students and families are paying 64 percent.

Throughout the tuition policy development process, there was great deal of discussion surrounding the concept of affordability and the difficulty in defining affordability. Many believed it would be useful to have an acceptable Colorado-specific measure of affordability. Department staff explored whether there was a readily available measure that might be easily incorporated into the tuition recommendation for fiscal year (FY) 2016-2017, but did not find an acceptable approach. As part of the proposed ongoing process, a significant undertaking of the Commission will be to pursue, along with the governing boards and interested parties, development of some Colorado-specific measure(s) of affordability (e.g. change in median family income).

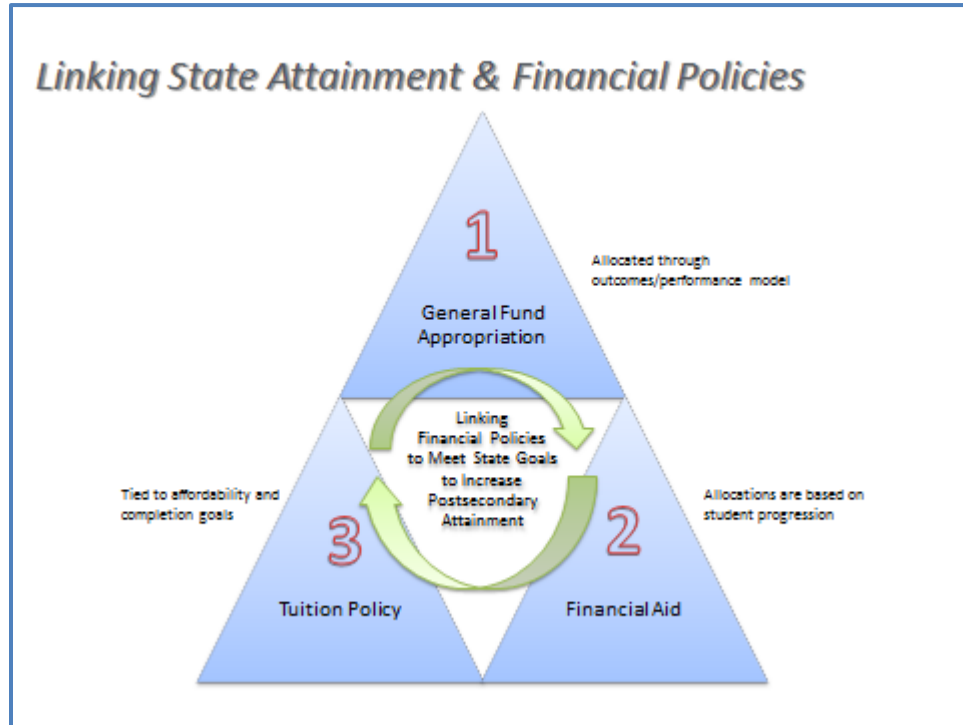
Value 3: Flexibility for Institutions

In Colorado, governing boards have constitutionally granted responsibility and authority over the financial management of their institutions; a major component of sound financial management is the setting of tuition. Members of governing boards are appointed by the Governor and confirmed by the Senate (except for the Regents of the University of Colorado, who are elected). This value affirms that governing boards are best equipped to set tuition and hold fiduciary duty to their respective institutions. Value 3 reinforces the role of the governing boards in setting tuition within their fiduciary duty to institutions, while simultaneously recognizing the need for a mechanism whereby a governing board could request an exception/waiver from a tuition increase limit.

Value 4: Accountability and Meeting Completion Goals

The Commission, among other duties, is charged with preparing a statewide master plan pursuant to the requirements set forth by the Legislature, in addition to coordinating with governing boards to implement statewide policies. Value 4 acknowledges the Commission's commitment to Colorado's Master Plan goals while also recognizing the importance of accountability when a governing board has requested to exceed the tuition increase limit through a Tuition Accountability Plan.

This value-based framework adopted by the Commission links statewide attainment goals and ensures that the major elements of higher education financing policy - appropriations, tuition, and financial aid - are aligned in order to address college affordability and student access and success.



New Tuition Policy Process

Pursuant to C.R.S §23-5-129 (6)(c) and C.R.S §23-1-108 (12)(b), beginning in FY 2016-17 and each year thereafter, 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. The Commission and the Department recommend keeping this portion of statute. As part of this request, it is critical that tuition revenues are not appropriated and remain an informational item in the Long Bill.

Roles & Responsibilities

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. The Commission has a responsibility to exercise oversight and to ensure that educational quality and student access are maintained.

Business Cycle Approach to Determine the Tuition Policy Recommendation

The Commission, in consultation with the governing boards and other interested parties, has developed an annual process and methodology for setting tuition increase limits. Such a process takes into consideration the following:

- The condition of the state general fund and state investment levels in higher education;
- The impact of tuition increases on students and families;

- The financial health of institutions and their ability to enhance overall quality; and
- Accountability and progress towards completion goals

Flexibility for Institutions

Governing boards will have the ability to request flexibility from the Commission’s tuition increase limits through a Tuition Accountability Plan. The content of Tuition Accountability Plans will include:

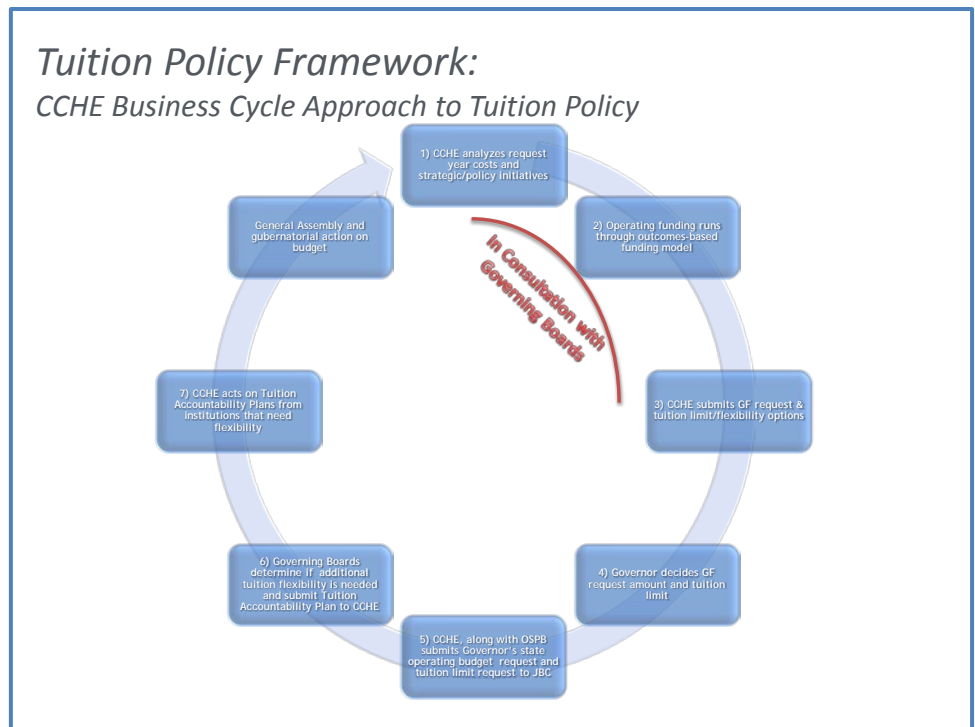
- Price and tuition strategies including substantiated business case for the increase;
- A demonstration of how the governing board will work to protect resident low and middle income students;
- How tuition increases will help the institution meet the Commission’s Master Plan Goals; and
- Evidence that completion goals are being met.

The Commission will review each request for tuition flexibility and either approve or deny the request for tuition increases above the recommended tuition increase limit. If the Commission denies the request, the governing board shall not exceed the undergraduate resident tuition increase limit, if applicable.

Business Cycle Calendar

The following steps mirror the state’s budget cycle and integrate the tuition recommendation process with the General Fund appropriation process, while also including a mechanism for the Governing Boards to request additional flexibility above the tuition increase limit through a Tuition Accountability Plan (with the Commission’s approval).

1. CCHE works with governing boards to analyze budget request year base costs and the costs of possible strategic improvements (June, July).
2. Operating funding runs through the funding allocation model to determine allocations for the budget year (July, August).
3. CCHE submits to



the Governor: the General Fund operating request and tuition limit/flexibility options (Aug, September).

4. Governor determines General Fund operating request and tuition limit/flexibility request (October).
5. CCHE, along with the Office of State Planning and Budgeting, submits Governor’s General Fund operating request and tuition limit/flexibility request to Joint Budget Committee (November 1).
6. Governing Boards, based on the Governor’s request, determine if additional flexibility is needed and if so, submit Tuition Accountability Plans to CCHE (December, January)
7. Step 7: CCHE acts on Tuition Accountability Plans from governing boards that request additional flexibility (spring)
8. Step 8: General Assembly and Governor’s action on the budget (spring)

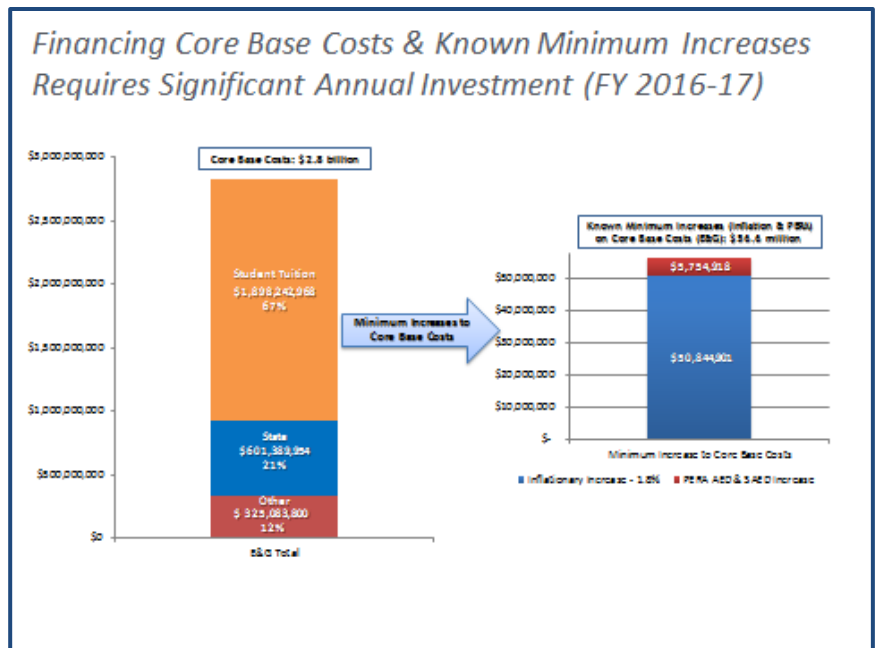
Tuition Policy Recommendation for FY 2016-17

For FY 2016-17, governing boards shall have the authority to raise tuition rates for resident undergraduate students within specified tuition increase limits. The tuition increase limits will be directly linked to the level of General Fund support. In other words, an increase in General Fund investment results in lower tuition increase limits, while a decrease in General Fund investment results in higher tuition increases, and a Commission recommendation of flexibility for governing boards to set tuition.

Analysis

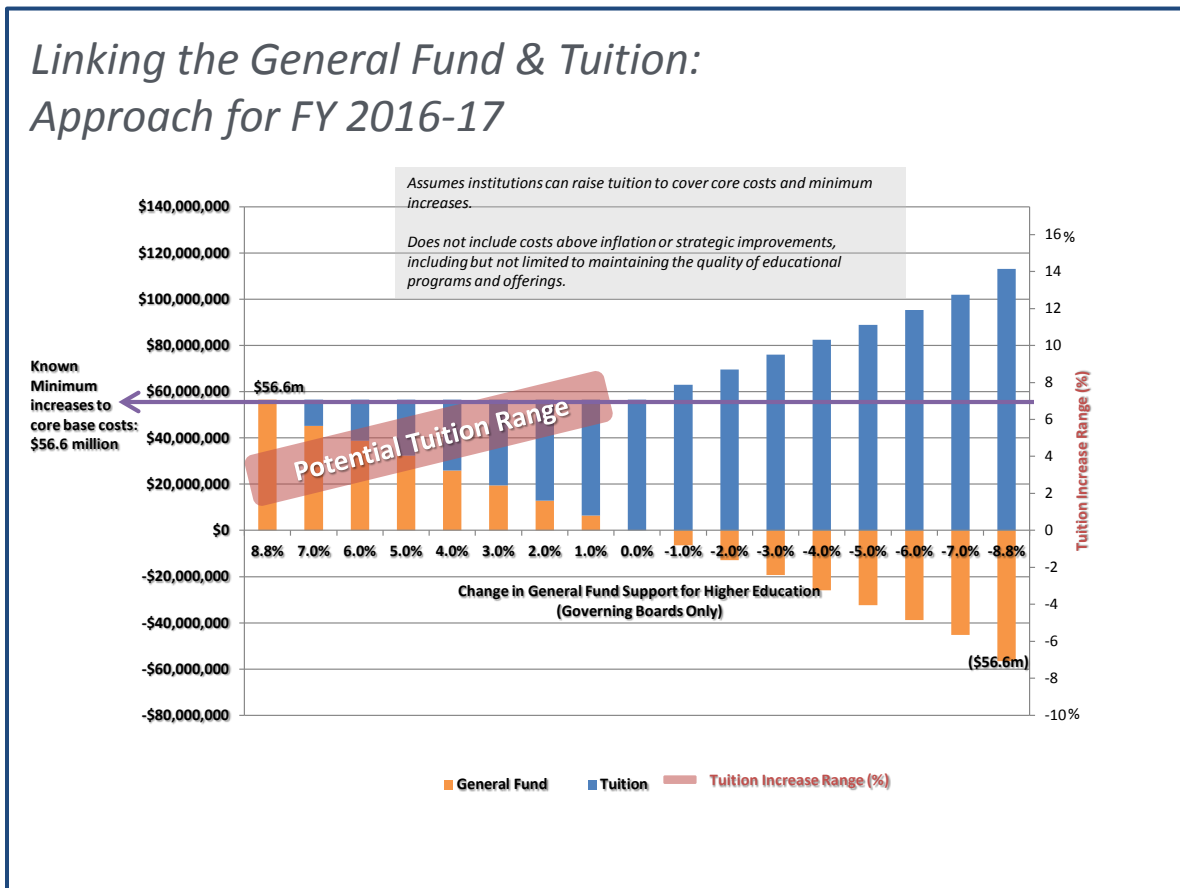
Public institutions of higher education have fixed costs they must meet in order to maintain their institutions. In 2015, the Department of Higher Education performed an evaluation of higher education costs and on the relationship of those costs to tuition. Based on this analysis, the Department conservatively estimates that the base cost increases that institutions must bear is \$56.6 million.

It is important to note that this estimate does not include costs above inflation, additional salary increases, or strategic improvements, including but not limited to maintaining the current quality of educational programs and offerings. The analysis conducted by the Department incorporates these factors not captured in the cost estimate by applying a *Cost plus Policy* basis for analyzing and determining the tuition recommendation. This allows for the



recommended tuition limit, if applicable, to capture each institution’s own unique niche - reflecting competitive environments, level of state support, and other distinct characteristics.

Utilizing this *Cost plus Policy* approach, if the state meets the entire minimum cost estimate, institutions would require lower tuition rate increases, in order to pay for mandatory cost increases and strategic improvements. As illustrated below, if the state is unable to cover these minimum costs, tuition rate increases are likely to continue rising.



Recommendation

For FY 2016-17, the tuition policy recommendation is as follows:

- If the state General Fund appropriation is flat or falls below the level appropriated in FY 2015-16 (\$672 million), there will be no restrictions on tuition levels set by governing boards.
- If the state General Fund appropriation increases above the level appropriated for FY 2015-16, the tuition increase limit on resident undergraduate tuition is dependent upon the level of state investment. For example, a state General Fund increase of 5 percent will result in a CCHÉ requested tuition increase limit of 6 percent.

- Because all state general funds are allocated through the higher education allocation funding formula, some governing boards may receive an allocation that is less than the overall percentage growth for higher education. Those governing boards receiving less than the overall percentage growth may increase tuition by one percentage point higher than the tuition recommendation limit (e.g., if the overall increase is 5 percent with a tuition increase limit of 6 percent; a governing board receiving a general fund increase of less than 5 percent would be able to increase tuition up to 7 percent).
- Governing boards will have the ability to request flexibility above CCHE tuition increase limit through a Tuition Accountability Plan.

Next Steps

- Amend Commission policies to clearly outline the new processes and the Commission's role therein. Official Commission policies will also include the development of Tuition Accountability Plan forms, processes and procedures.
- Request technical and clean-up changes to applicable statutes.