



COLORADO

**Colorado Commission on
Higher Education**

Department of Higher Education

Report on Implementation Status of the Higher Education Funding Allocation Formula

Overview

C.R.S. 23-18-306(4) requires Colorado Commission on Higher Education (CCHE, the Commission) to submit an annual report, by July 1 of each year from 2016 through 2020, detailing the implementation status of the Higher Education Funding Allocation Formula, including any recommended changes to statute. CCHE issues this 2017 report in compliance with the annual reporting requirement.

The legislation passed in May 2014 enacting this statute, HB 14-1319:

1. Eliminated the funding structure for allocating state General Fund dollars to public institutions of higher education; and
2. Tasked the CCHE 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.

This new funding allocation formula now allocates all state General Fund operating dollars to Colorado's public institutions of higher education, with the exception of local district colleges and area technical colleges, since FY 2015-16.

Key Findings

Fiscal Year (FY) 2018-19 is the fourth year that allocations to Colorado's public institutions of higher education will be determined through this formula. As such, the full impact of the formula on institutional behavior cannot be derived at this point. Based on experience with evaluating other programs, five years is the minimum amount of time needed to provide a clear picture. Nevertheless, a few key observations have been identified:

- The 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 this statute and utilized within the model can be used to close the "Attainment Gap" in Colorado; and,
- Institutions have indicated that they are changing their strategies to position themselves to perform better with this the formula, but more time and evaluation will be needed to determine is the extent of the impact on institutional behaviors to achieve the legislation's policy intentions to increase the number of students enrolled, transferred, retained, and completed.

Summary of Implementation Status

HB 14-1319 eliminated the previous 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, the Department, and impacted institutions to implement the requirements of the legislation, a new base funding allocation formula was employed beginning in FY 2015-16.

Among other things, the legislation 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 Joint Budget Committee (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. In response to this RFI, the Department spent the summer of 2015 working again with higher education stakeholders to refine aspect of the formula and make it more intuitive, while also adding measures to ensure sustainability in times of decreased funding. As a result of this intensive work, 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 2015 through March 2016. The results of these hearings were 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.

For FY 2017-18, the Department used the JBC approved model to make the allocations in the Governor's annual November 1st Budget Request. In using the JBC's approved model, the Department intended to adhere to the JBC's wishes while providing some stability in the allocation approach across fiscal years. The requested allocations were approved by the JBC during the March Figure Setting process, and were approved by the General Assembly as part of the Long Bill.

As part of the March Figure Setting process, the JBC also approved a Request for Information (RFI) asking the Department to review the following four items:

- Providing funding in the model for students who are first in their families to attend college ("first generation"/First-Gen students). This could include weighting performance completions and/or adding funding per enrollee if and when feasible.
- Considering whether additional adjustments are appropriate to align the funding model with the state master plan goals.
- Providing a component for successful student remediation in the model.
- Further emphasizing support for Pell-eligible students in the model.

In preparation for the FY 18-19 budget submission, the Department reviewed the request and worked to align the model where possible with the RFI. The Department began collecting data on First-Gen students, and, as stated in the RFI response, hopes to incorporate this population into the model when the data is usable. This change would provide additional Master Plan alignment, which was also addressed through the changes to the Pell-eligible student weights in the model.

The weighting for Pell-eligible students in the model was directly addressed, and this aligns with the Colorado Commission on Higher Education's Master Plan equity goals as approximately 56% of Colorado's Pell students are also underrepresented minorities. In the Role and Mission part of the model, the weighting was increased from 10% of the COF stipend amount to 12.5% of the COF stipend amount. This is done to incent institutions to enroll more Pell students as institutions will get additional dollars from this factor by serving additional Pell students. Additionally, this change recognizes the added cost to provide the necessary support services for Pell-eligible students to be successful. The weight for Pell-eligible student completions was changed from 1.6 to 2.0 to incent the completion of these students in addition to their enrollment.

During the March Figure Setting, JBC approved the model with the Pell adjustments and made additional modifications for rural institutions. As part of the Role and Mission component, an additional \$100,000 was added for the 6 rural community colleges and \$500,000 a piece was added for Adams State University, Fort Lewis College, Western State Colorado University, and Colorado State University – Pueblo.

Discussion of Key Findings

For FY 2018-19, the five key findings of this report are largely unchanged from prior years as the Department and stakeholders work to gain a more robust understanding of the Model's impact on student outcomes.

1. NO CHANGES TO STATUTE ARE RECOMMENDED AT THIS TIME

The funding allocation formula was only developed in 2015 and has already undergone several changes, both minor and structural. 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,
- HB16-1350 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 to fully understand the impact of the formula, there must be some consistency. Working from a consistent baseline will help the Department evaluate the impact of the existing model and any future changes.

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 flat or declining funding environments.

In the four years that the formula has existed, it has been tested and found to work in varying scenarios. In FY 2015-16, higher education received an 11% increase in general fund investment; in FY 2016-17 the Governor proposed a \$20 million reduction, which

the General Assembly restored to a flat funding level; and, in 2017-18 higher education received a modest 2.5% increase. In FY 2018-19, an additional 8.95% increase was allocated through the funding model.

This is notable because, in three years of funding, the percentage point change in funding for governing boards has ranged from 6% to 18% (see following table).

Table 1. Change in Allocations to Governing Boards through the Higher Education Funding Allocation Formula			
	FY 2014-15 (Pre-1319)	FY 2018-19 (Under 1319)	% Change
Adams State	\$12,837,288	\$15,294,223	19%
Colorado Mesa	\$22,027,251	\$28,432,752	29%
Metropolitan State Univ. of Denver	\$43,681,193	\$56,485,329	29%
Western State	\$10,585,447	\$13,301,710	26%
Colorado State Univ. System	\$121,978,483	\$151,551,802	24%
Ft. Lewis College	\$10,594,604	\$12,521,493	18%
Univ. of Colorado System	\$167,097,810	\$213,139,212	28%
Colorado School of Mines	\$18,669,456	\$22,396,891	20%
Univ. of Northern Colorado	\$37,357,027	\$41,747,358	12%
Community College System	\$137,465,925	\$168,015,404	22%
Governing Board Total	\$582,294,484	\$722,886,174	24%

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, to name only a few, provide important access to postsecondary education to residents in 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 lower 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, a December 2015 *Economic Impact Analysis and Report* reported that Adams

State University, located in the San Luis Valley (one of the poorest rural communities in Colorado), had an estimated \$78,078,185 Total Economic Impact on the regional economy and an \$111,820,411 Total Economic Impact on the state as a whole in FY 2014-15.¹

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. Although an additional base amount was added by the JBC for FY 2018-19, more analysis is needed to ensure that there is a long-term solution to address the different role and mission and populations that our rural institutions serve.

4. MORE EVALUATION IS NEEDED TO ADDRESS THE ATTAINMENT GAP

Colorado is faced with a significant postsecondary education "Attainment Gap" among low-income, first generation, and traditionally underserved students. The Commission and the Department have made erasing this gap a top priority, and institutions have employed a myriad of student support programs in to enroll and retain students from underserved backgrounds.

The funding formula seeks to address this 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. The cost-offset for low-income students was increased from 10% of the COF Stipend to 12.5% of the COF Stipend to incent enrolling more low-income students. Among other states using higher education performance-based funding allocation formulas, Colorado has the largest incentive for graduating Pell-eligible students, and this incentive was increased for FY 2018-19.

However, incenting enrollment and completion of low-income students is far from a silver bullet: traditionally underserved students are not always Pell-eligible students. While there is overlap, only targeting the low-income student population will not fully address the attainment gap. To make meaningful progress in closing this persistent disparity, additional General Fund dollars need to be loaded into the formula so that it provides a larger incentive for institutions to enroll and complete underserved, low income and first generation students. Additionally, the Department must review the existing incentive structure to fully understand the current impact on underserved student access and completions and any addition changes designed to incent the reduction and elimination of Colorado's attainment gaps.

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

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 must 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 the statute, requires investments of both time and money.

As performance-based funding allocation formulas have become popular methods for aligning states' policy goals with higher education funding, it has also become apparent that time and general fund investment are equally as important as sound metrics and fair, honest evaluation. A majority of states now have a funding formula, policy, or model 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 our 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 As Colorado approaches the five-year mark, evaluating the impact of the model will become an important part of the process.

Conclusion

The implementation of HB 14-1319 was a significant undertaking. Continued implementation of the statute has now become embedded in the annual budget process. While areas of adjustment and refinement have been implemented since the first iteration of the formula, it is vital to understand that consistent investment and predictability within the formula's components are paramount to its overall success. In the three years that the funding allocation formula has been operational, allocations have increased (FY 2015-16), were held constant (FY 2016-17), increased slightly (FY 2017-18), and then increased substantially in FY 2018-19.

While General Fund investment is the single most important factor in the success of the policy goals set forth in the legislation, institutions also need time to effectively modify behavior to meet these goals and set themselves up for their greatest opportunity for success within the funding model's metrics and factors. The legislative intent of HB 14-1319 recognizes this by calling for a funding model that is both "consistent and predictable." So, at this three year juncture, we find that more time and evaluation are absolutely necessary before we can evaluate the overall impact of the formula on incentivizing institutional behaviors.

² <https://www.tn.gov/thec/news/42962>
<http://www.tn.gov/assets/entities/thec/attachments/1-Outcomes Based Formula Narrative - for website.pdf>



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APPENDIX A

**FY 2018-19 Higher Education Funding Allocation Formula
Definitions, Weights, and Allocations**

FY 2018-19 Higher Education Funding Allocation Formula 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 2016-17 COF actuals.	\$83 (subject to change)	53.1

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. Per the 2015-16 JBC Adopted Model, Weighted Student Credit Hours are also included, in order to offset the costs associated with delivering credits to resident students (non-residents are excluded).

Role & Mission Factor Definitions and Data Sources		
Factor	Definition	Date Source/Year
Mission Differentiation	A flat amount is allocated based on the institution’s size and type with a special factor adjustment for institutions that adjusts the base amount based on funding changes.	Based on JBC Adopted Model and adjusted based on funding changes.
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). For FY 2018-19, the weighting on this factor has been increased by 2.5% from 10% to 12.5% of the COF Stipend dollar amount.	Student Unit Record Data System (SURDS)/ Academic Year (AY) 2016-17 and COF Actuals for 2016-17

Weighted Student Credit Hours	Provides funding based on the number of completed credit hours and the costs associated with delivering the credits (non-resident credit hours excluded).	Student Unit Record Data System (SURDS)/ Academic Year (AY) 2016-17
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More on Mission Differentiation:

The Mission Differentiation factor is a flat amount allocated based on the institutional size and type with a special factor adjustment for two institutions. The dollar amounts allocated for Mission Differentiation are outlined in the table below. The special adjustments made for three institutions are outlined in the model allocations for the Role and Mission Factors.

<u>Research institutions</u>	
Research institution cost of operations (comp amount + \$1.8 million)	6,600,000
Add-on for any stand-alone R institution smaller than 10,000	2,300,000
Add-on for any R institution larger than 20,0000	4,650,000
<u>Comprehensive institutions</u>	
Comp institution cost of operations	4,800,000
Add-on for any stand-alone institution smaller than 3,000	1,550,000
Add-on for any Comp institution larger than 15,000	300,000
<u>Community colleges</u>	
Community college cost of operations	1,000,000
Add-on for small rural institutions	600,000

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). Pursuant to the JBC model adopted in 2016-17, non-resident students are counted at .3.

Completion and Transfer weights are as follows:

Outcomes/Performance Metric Definitions and DataSources		
Metric	Definition	Data Source/ Year
Completion	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. Certificates will be counted when issued for: • 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. 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.	Student Unit Record Data System (SURDS)/ AY 2015-16
Retention	The number of students who make the following steps of academic progress: Four-year institutions –number of students who cross the threshold of completing: • 30 credit hours • 60 credit hours • 90 credit hours Two-year institutions - number of students who cross the threshold of completing: • 15 credit hours • 30 credit hours • 45 credit hours Concurrent enrollment will be included and each student will be counted only once at	Student Unit Record Data System (SURDS)/ AY 2015-16

Outcomes/Performance Metric Definitions and DataSources		
Metric	Definition	Data Source/ Year
Institutional Productivity	Calculated by: 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	Student Unit Record Data System (SURDS)/ AY 2016-17

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	2.0
STEM and Heath	1.5
Non-Resident Student Weight	.3

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 2018-19 Higher Education Funding Allocations

Governing Board	FY 17-18 Approps (COF and FFS)	FY 17-18 Appropes (COF, FFS, and Limited Purpose	Total From COF Stipend	Total From Role & Mission	Total from Performance	Total From Model (Pre Guardrails)	% Change from Prior Year (Pre Guardrails)
Adams	\$14,259,963	\$14,259,963	\$2,800,794	\$9,519,737	\$2,973,693	\$15,294,223	7.25%
Mesa	\$25,951,161	\$25,951,161	\$15,811,085	\$6,863,534	\$5,758,134	\$28,432,752	9.56%
Mines	\$21,484,706	\$21,484,706	\$6,566,006	\$10,641,653	\$5,189,233	\$22,396,891	4.25%
CSU	\$83,260,917	\$83,260,917	\$47,892,319	\$22,635,302	\$19,985,369	\$90,512,990	8.71%
CCCS	\$153,547,255	\$153,709,215	\$111,997,876	\$28,955,963	\$27,061,565	\$168,015,405	9.42%
Ft. Lewis	\$11,784,939	\$11,784,939	\$3,766,042	\$6,087,243	\$2,668,207	\$12,521,493	6.25%
Metro	\$51,626,603	\$51,626,603	\$34,139,239	\$9,285,483	\$13,060,607	\$56,485,329	9.41%
CU	\$130,068,157	\$130,168,157	\$71,558,157	\$35,351,891	\$36,337,663	\$143,247,711	10.13%
UNC	\$39,522,408	\$39,597,408	\$16,394,835	\$17,016,365	\$8,336,159	\$41,747,359	5.63%
Western	\$11,821,897	\$11,821,897	\$3,319,876	\$7,780,349	\$2,201,485	\$13,301,710	12.52%
Total (model)	\$543,328,006	\$543,664,966	\$314,246,227	\$154,137,521	\$123,572,114	\$591,955,862	8.95%

