



## SB 19-095 Report for the Higher Education Funding Allocation Formula

The Department of Higher Education (the Department) and the Colorado Commission on Higher Education (CCHE, the Commission) have conducted a review, as required by SB 19-095, of the higher education funding allocation formula established pursuant to House Bill 14-1319.

This report is being submitted to the Joint Budget Committee and House and Senate Education Committees as required by the legislation.

### PROCESS FOR REVIEW AND FEEDBACK ON EXISTING FORMULA

The Department engaged interested parties as part of the review process, including the state's public higher education institutions, to discuss how the formula could be updated to better align with the newly updated higher education Master Plan, meet access and equity needs, and incent performance for the benefit of Colorado students – while still providing stability for our institutions. Department staff also engaged with other states that have implemented funding allocation formulas, as well as with researchers who study the impact of outcomes-based funding allocation formulas. Furthermore, a working group of Commissioners was formed and met on a regular basis to discuss how the formula could be updated. These meetings were open to the public and regularly attended by representatives from the public institutions of higher education.

Prior to the passage of SB 19-095, the Commission expressed interest in engaging in a holistic review of the funding allocation formula, given that it had been in place for 5 years and the statutory “guardrails” that had been put in place to stabilize institutional allocations over time were scheduled to come off; the complexity of the formula; adjustments that have been made to the formula over time to ensure it provided a stable level of funding to institutions; and, the needed alignment with the Commission's Master Plan, *Colorado Rises* – which identifies four strategic goals for higher education in Colorado:

1. Increasing credential completion;
2. Erasing equity gaps;
3. Improving student success; and;
4. Investing in affordability and innovation.

In addition, the Commission believes the existing formula does not sufficiently address Colorado's significant attainment gap among low-income, first-generation, and traditionally underserved students.

Concerns interested parties raised included:

1. How the formula's complexity prevents clear alignment with the goals of the higher education Master Plan;
2. The formula is too volume-driven, to the point that smaller institutions' outcomes in the formula can be eclipsed by the outcomes of the larger institutions.
3. How can the formula prevent the need for “guardrails” over time by ensuring the formula is simple and understandable, without creating major instability in allocations for institutions?
4. What is an appropriate level of base funding for each of the state's higher education institutions? The Department has contracted with a third-party research organization to conduct an evaluation to inform a

meaningful, rational methodology to assess the base funding amounts for institutions and how those amounts may need to be adjusted.

The review process helped focus the Department, the Commission, and stakeholders on seeking alignment with the following core principles:

- **Simplicity and Transparency** - the formula must be understandable so that policymakers, institutions, and the public can clearly understand what outcomes and activities drive funding changes; the Department has strived to ensure that a new formula is simpler and more predictable without the need to have guardrails and ongoing adjustments that add complexity.
- **Master Plan Alignment** - the formula must be clearly tied to the Master Plan
- **Outcomes-Based** - the formula must provide incentives for institutions to improve their performance over time to lead to stronger outcomes for Colorado students
- **Volume Mitigation** - smaller institutions should have the same ability to succeed in the formula based on outcomes as larger institutions.

## RECOMMENDED CHANGES TO FORMULA

---

The Department and the Commission developed, considered, and evaluated multiple formula concepts. The final structure agreed upon meets the principles above and would allocate 10% of the FY 2019-20 operational funding as well as all new funding, with the intention of increasing the amount of base funding allocated over time to ultimately reach 100% of funding through the new formula.

The new structure would allocate state investment as follows:

- **40% to Operational Support** - adjusted for geographical location
- **30% to Equity and Enrollment** – distribution based on enrollment of target populations in Master Plan
- **20% for Overall Completions** - weighted by type and field, with an additional bump for target populations in Master Plan
- **10% for Graduation Rate** – incenting timely completion

See Appendix A for a detailed description of the structure of the proposed new formula components.

In addition, the Department recommends the School of Mines be treated as a Specialty Education Program (SEP) moving forward, but reserves the ability to further evaluate how this institution and the other SEPs (UC Health Science Center and CSU Veterinary Medicine) could or should be further incorporated into the formula's performance incentives in the future.

The recommendation for Mines to be treated as an SEP is based on the following factors:

- The highly specialized nature of Mines' programs at both the undergraduate and graduate levels;
- In the 2018-19 academic year, 84% of baccalaureate degrees Mines awarded to resident students were classified as engineering degrees;
- Mines is recognized as a specialized program in both its establishing statute and current law related to the funding allocation model; and,
- 100% of the operating funding dollars they receive from the state are used for student wraparound services. Mines has committed to maintaining this provision and working with the Department moving forward in addressing how to erase equity gaps at their school.

## COMMISSION RESOLUTION

---

The Colorado Commission on Higher Education adopted a resolution on the formula at their October 24, 2019 meeting. The resolution reads as follows:

Whereas, The Commission is required to provide a funding allocation formula recommendation by November 1, 2019;

Whereas, additional time is required by the Commission to finalize such a formula, however, the Commission is supportive of a principle-based approach consistent with the Master Plan.

Now therefore, it is resolved by the Commission that:

- a. The Commission supports an allocation formula this is consistent with the Master Plan and values completions, equity and graduation rates, and improvements in those rates.
- b. That such final formula has predictability and reliability for institutions, families and students and drive affordability

## NEXT STEPS

---

The Department requests legislation be introduced in the 2020 legislative session in order to enact the statutory changes needed to implement the proposed funding allocation formula. In addition, further evaluation of the formula is necessary to allocate increasing portions of base funding, beyond the 10 percent in the first year, to ensure stability in funding to the state's widely varying institutions.

The Department and the Commission will continue to engage stakeholders, with the core principles outlined above in mind, to further refine the formula structure and metrics. Furthermore, the Department hopes to work closely with your committees to champion this important work for Colorado students and get the necessary legislation enacted.

## ## ##

If you should have any questions, please contact Chloe Mugg, Legislative Liaison for the Department of Higher Education, (913) 744-8714 or [chloe.mugg@dhe.state.co.us](mailto:chloe.mugg@dhe.state.co.us)

# Proposed New Funding Allocation Formula | FY 2020-2021

## Annual State Appropriations

### Funding Through Allocation Formula

Any new money plus 10% of base funding from FY 19-20

Includes Adams, Colorado Mesa, CCCS, CU System, CSU System, Fort Lewis, MSU Denver, UNC, Western

### Increase to SEPs/LDCs/ATCs

Overall percentage increase in given fiscal year

**SEP:** Specialty education program  
**LDC:** Local district college  
**ATC:** Area technical college

### Our Vision

CDHE aims to incrementally increase the amount of base funding (prior year's appropriation) each year until 100% of money awarded to institutions is allocated through the formula. *Future revisions to the formula may be necessary to allocate more base funding.*

**SEPs:** Colorado School of Mines, CU Anschutz School of Medicine, CSU Veterinary Teaching Hospital  
**LDCs:** Colorado Mountain College, Aims Community College  
**ATCs:** Emily Griffith Technical College, Technical College of the Rockies, Pickens Technical College



### 40% Operational Support

An across-the-board percentage increase adjusted based on geography

Additional funding recognizes the unique needs of varying geographic locations. Weights exclude higher education systems (Colorado Community College System, CU System, CSU System).

#### GEOGRAPHIC WEIGHTS

Remote or Distant Town  
**1.75**



Small City  
**1.60**



Midsize City  
**1.45**



Large City  
**1.30**



### 30% Equity and Enrollment

Funding based on enrollment of target populations identified in the CCHE Master Plan

#### NUMBER OF PELL-ELIGIBLE and URM STUDENTS

Institutions receive more funding based on:

- Percentage of Pell and URM students enrolled
- Percentage of Pell and URM populations relative to statewide student population

#### UNDERREPRESENTED MINORITY (URM) STUDENTS INCLUDE

American Indian or Alaska Native  
  
Two or more races

Hispanic  
  
Black

CDHE anticipates adding a **first-generation** category to this metric upon standardizing a data collection process with institutional research offices.



### 20% Completions

Rewards for graduating students with additional weights for credential level, field and student demographics

#### CREDENTIALS ARE MULTIPLIED BY

**1 Type**

Certificate: **0.25**  
Associates: **0.5**  
Baccalaureate: **1**  
Graduate Certificate: **0.25**  
Master's/Specialist/Doctoral: **1.25**

**2 Field**

STEM-Health: **1.5**  
Educator Preparation: **1.5**  
All other: **1**



#### STUDENT DEMOGRAPHICS

After accounting for credential type and field, students are counted again if they are Pell Grant-eligible and/or belong to an underrepresented group. Students who belong to both demographic groups are counted three times.



- Pell Grant-eligible
- URM



### 10% Graduation Rate

Incenting timely completion

In order to incent lower time to degree for students, this metric rewards institutions based on three factors:

- Their graduation rate
- Their graduation rate compared to that of their peer institutions
- For those institutions that are improving, their improvement compared to their peers

These three factors are combined to make a score, per institution.

#### TIME-TO-CREDENTIAL METRICS



This methodology is used for both 100% of time and 150% of time to graduation. Of the 10% of funding allocated through this metric, 5% is used for 100% of time scores and 5% is used for 150% of time scores.

**100%**      **150%**

**Associate Degree:** Two years    Three years  
**Bachelor Degree:** Four years    Six years