The Bell Policy Center presents

Higher Education in Colorado

PART #3

Colorado's Higher Education System Business Model

Key Highlights

- Decreased public investment over time has increased postsecondary institutions' reliance on student tuition for revenue.
- This shift in funding sources has placed a higher cost burden on Coloradans for receiving a postsecondary education. This shift in funding sources has also led some institutions to try to attract more out-of-state students.
- While the limited amount of public investment in postsecondary institutions hinders economic development and mobility in the state, the state's postsecondary education funding formula has made progress over time to address equity gaps and help meet state policy goals.
- Greater progress will require Colorado to treat postsecondary education as a public good and protect funding for postsecondary education from the constant risk of budget cuts.

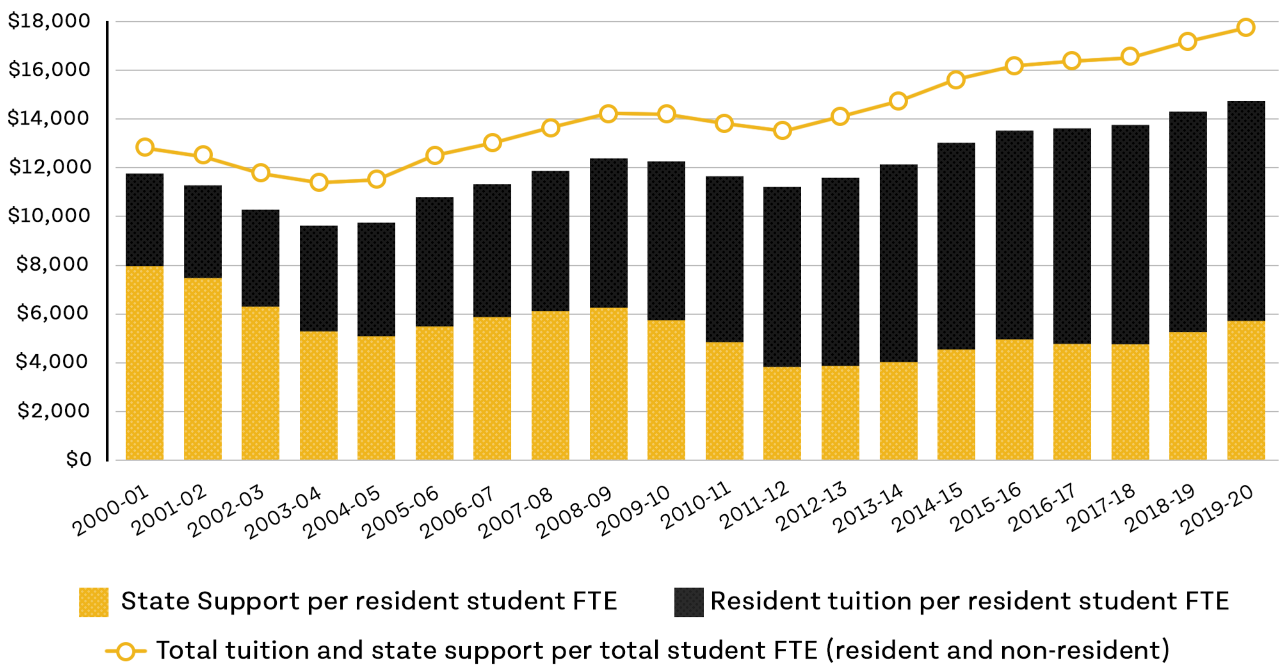
The General Fund & Higher Education

The state of Colorado ranks 45th in the nation for per capita spending on higher education.[1] Over time, but in particular after the Great Recession, the state share of support for tuition has dropped. In the 2000-2001 fiscal year, the state appropriations to postsecondary institutions from the general fund covered about 82 percent of tuition for Colorado residents. By 2008-2009 fiscal year, that share dropped to 53 percent. Today, general fund appropriations cover 38 percent of resident tuition for full-time students.

This trend of decreasing investment is due to the unique set of circumstances that determine the budget available for the Department of Higher Education (CDHE). Unlike other departments, like the Department of Education where spending is required to keep up with population growth and enrollment, CDHE has no constitutional protections that mandate spending. This means when budgets are tight, as is the case during recessions, spending to CDHE faces the most severe cuts. During the last recession, engendered by COVID-19, CDHE saw a 58 percent cut, the largest of all departments.[2] TABOR compounds on these issues by limiting the spending that can be restored to postsecondary institutions even after recessions end and state revenue rebounds, especially as constitutionally mandated spending in other parts of the budget, such as spending for the Department of Corrections, grow.[3]

Over time, the lack of state support has left Coloradans stuck with the tab for tuition. As institutions become more reliant on tuition revenue, some institutions have turned to out-of-state students to bring in more revenue since they pay higher tuition than in-state students. Despite this trend, tuition revenue for in-state residents has increased over time as well.

Colorado Residents Paying Higher Share of Tuition



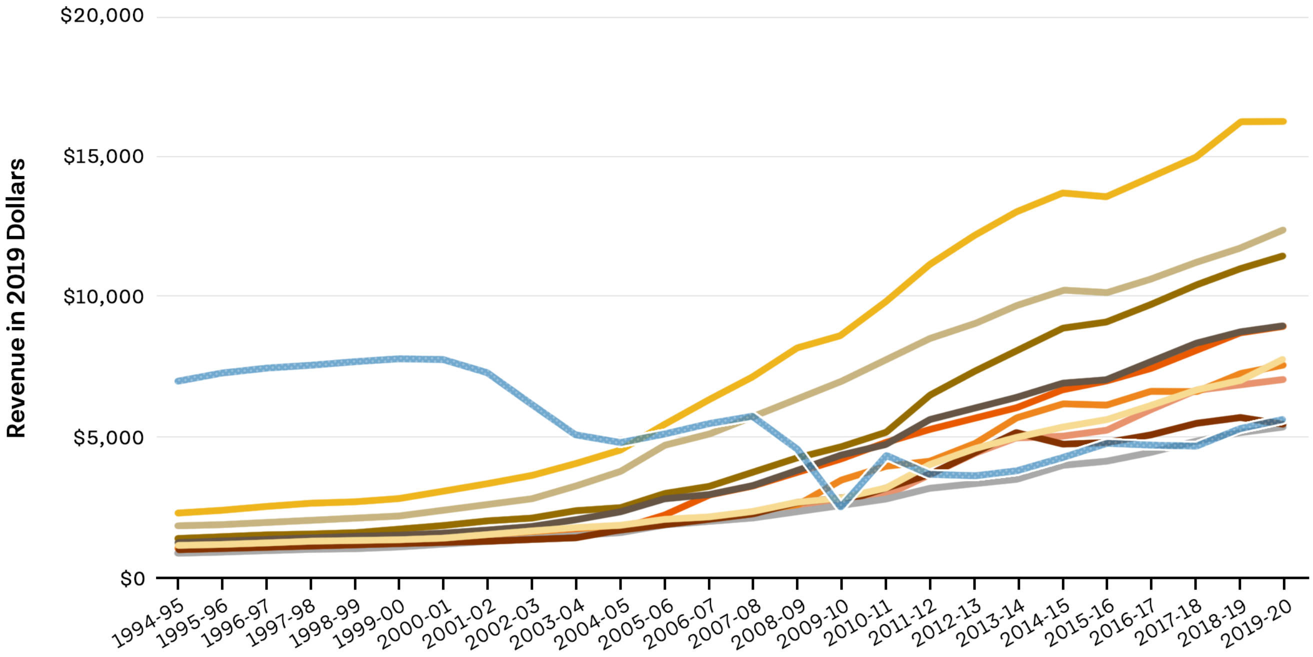
Source: Bell Policy Center analysis of JBC data

Factors Driving Tuition Costs Over Time

Aggravating affordability issues for Coloradans is that while public support for tuition has decreased as a percentage of total tuition, other costs have also risen. Growing tuition costs aren't unique to Colorado and have mirrored national trends around postsecondary education costs. According to the CollegeBoard's data on trends in college pricing, average tuition and fees for public four-year institutions have grown by 7.2 percent in the United States over the past five years. In Colorado, they have grown by 7.9 percent over this time period.

One of the most significant drivers of growing tuition costs is the loss of state investment.[4] Several other factors also feed into the growing costs associated with postsecondary education in general. One component, for example, is that postsecondary institutions are large employers of highly educated people, and on average more educated than in other industries. Over time, the costs associated with hiring and retaining highly educated staff has grown since salaries for highly educated people have grown over time.[5] But, unequivocally, "decreases in state subsidies are the driving engine of the contemporary affordability crisis."[6]

Resident Tuition Revenue, Inflation-Adjusted Per Capita



Source: Bell Policy Center analysis of data provided by JBC Staff

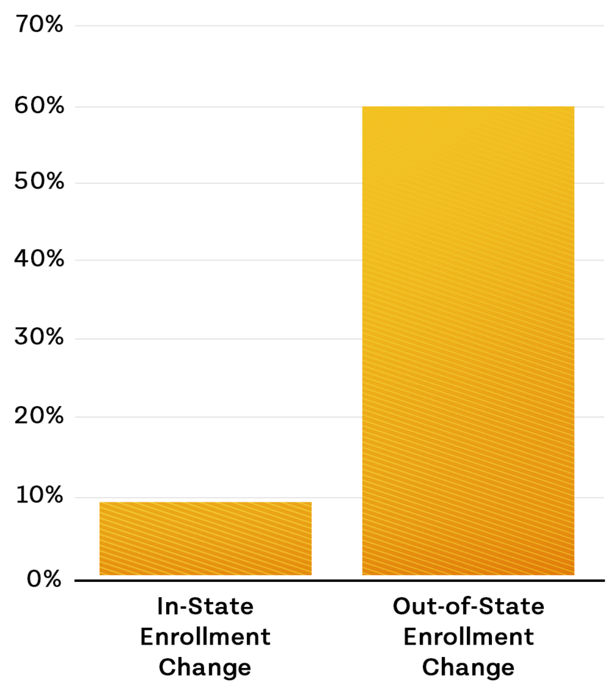
Historical Spending & Enrollment

2004 Colorado implements the College Opportunity Fund Stipend to allow state funding to follow students according to enrollment, rather than the historical allocations at each institution.

2014 The legislature passes HB14-1319, which implements a new funding allocation model based largely on performance outcomes.

2020 The legislature passes HB20-1399, giving the legislature greater discretion to allocate portions of funds based on additional criteria to advance equity in funding, such as the share of an institution's student population that is Pell-eligible.

Out-of-State Enrollment Outpaces In-State Enrollment in Public Four-Year Instituions (2010-2019)



Colorado allocates funds to its public postsecondary institutions through appropriations to what are known as governing boards. Each institution, or group of institutions in the case of the CU system and the community college system, receives state funding based on a formula that is updated every few years by the legislature.

In 2014 the state legislature passed a new funding formula that focused on performance-based metrics. The object of this shift was to help meet policy goals around graduation and workforce alignment, as enumerated in the state's master plan for higher education.[7] By rewarding institutions for having higher retention and graduation rates the state hoped resident completion would increase. In addition to aligning with policy goals, the new funding formula also provided funding allocations based on resident enrollment, through the College Opportunity Fund Stipend (COF). Lastly, HB14-1319 also allocated funding to institutions based on their role and mission, such as serving rural communities or being a research institution.[8]

Prior to this legislation, institutional allocations had been largely based on historical funding rather than relative to performance on specific policy goals or based on the needs of institutions based on their enrollment, role, and mission.[9] Starting in 2004 the Colorado General Assembly adopted COF with the intent that dollars would follow students and institutions would receive funding allocations based on enrollment and fee-for-service (FFS) contracts to the department for educational services provided by the institutions.[10] While HB14-1319 maintained the enrollment funding through COF, and required resident enrollment comprise a majority of the funding allocation, it supplanted the FFS component with the performance and institutional role and mission factors.

Unique to Colorado, compared to other states with performance-based funding allocations, was that the entire state appropriation was to be passed through the performance-based model. At the time of implementation, other states with performance-based models only allocated 25 percent or less through the performance portions of the funding formula.[11] The intent behind this decision in Colorado was to provide transparency and predictability to institutions and taxpayers on funding allocations. However, this method of allocations had some unintended consequences whereby certain institutions with lower rates of retention and completion, due to serving higher rates of "nontraditional students" receive less funding per resident student, making it harder to support these very students. This led to the implementation of HB20-1399, which gives the JBC the opportunity to depart from the 100 percent performance-based funding model.

Major Funding Factors Defined by HB 14-1319[12]

1. **Main performance outcomes**
   - 100 percent (on-time) completion rate
     - Bonuses provided for completers in STEM and health care (since they are in-demand industries) and priority populations of Pell-eligible and underrepresented minority students.
   - Retention rates

2. **Resident enrollment (COF)**

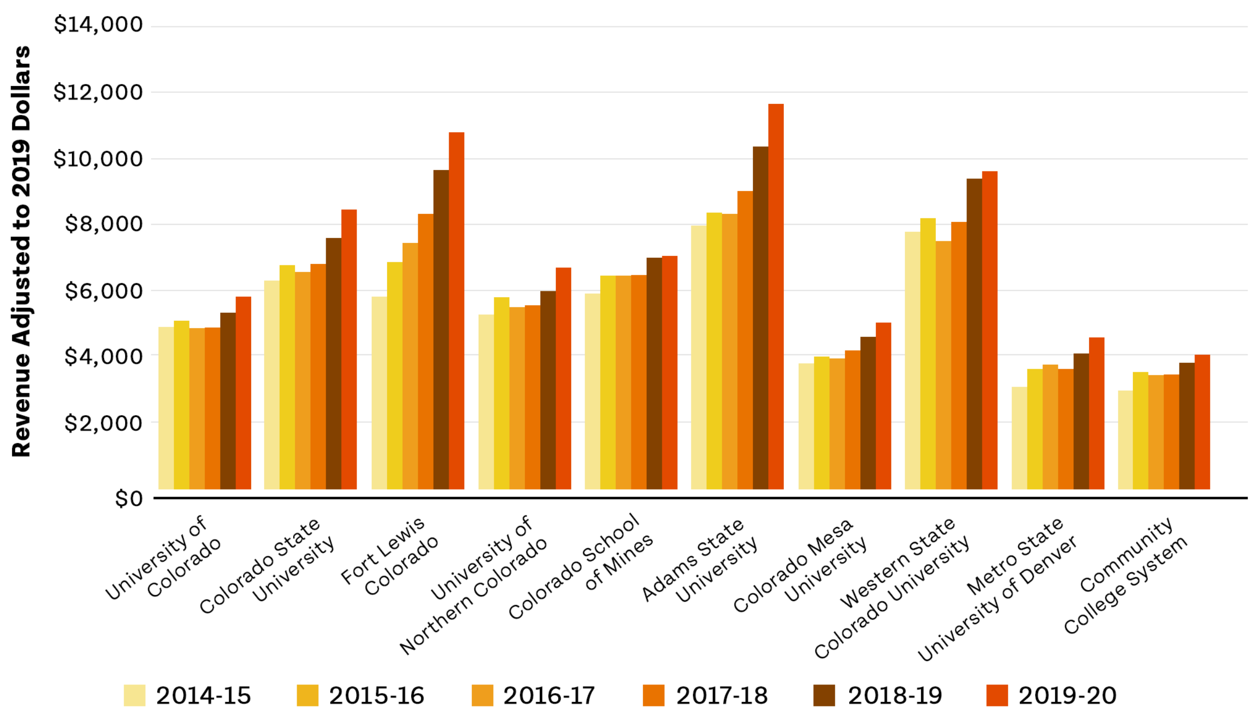
3. **Institution role and mission, such as whether an institution is:**
   - a research institution
   - a rural institution
   - serving first-generation or Pell-eligible students

Institutional Impacts

While COF stipend allocations follow resident Coloradans, performance and role and mission allocations consider the whole student body, including out-of-state students. This allocation model, paired with the declining public investment from the General Fund over time, provided incentives for certain institutions to focus on attracting out-of-state students because institutions can set higher tuition rates for out-of-state students. Based on each institution's mission and role, this practice tended to better align with research institutions than access institutions. This is because research institutions' main goal is to further their research role in a national ecosystem, while access institutions' main goal is to serve their local population for local economic development.

As a result of these different institutional priorities, the state's appropriation per resident varies significantly across institutions. This is due to a combination of student body compositions and academic outcomes which correlate with historical opportunity. If the state endeavors to center equity, and to prioritize the education of resident Coloradans for our talent pipeline development, beyond any moral imperatives, then adjustments to our funding model that center students will be necessary.

General Fund Support Per Resident Student by Institution Over Time



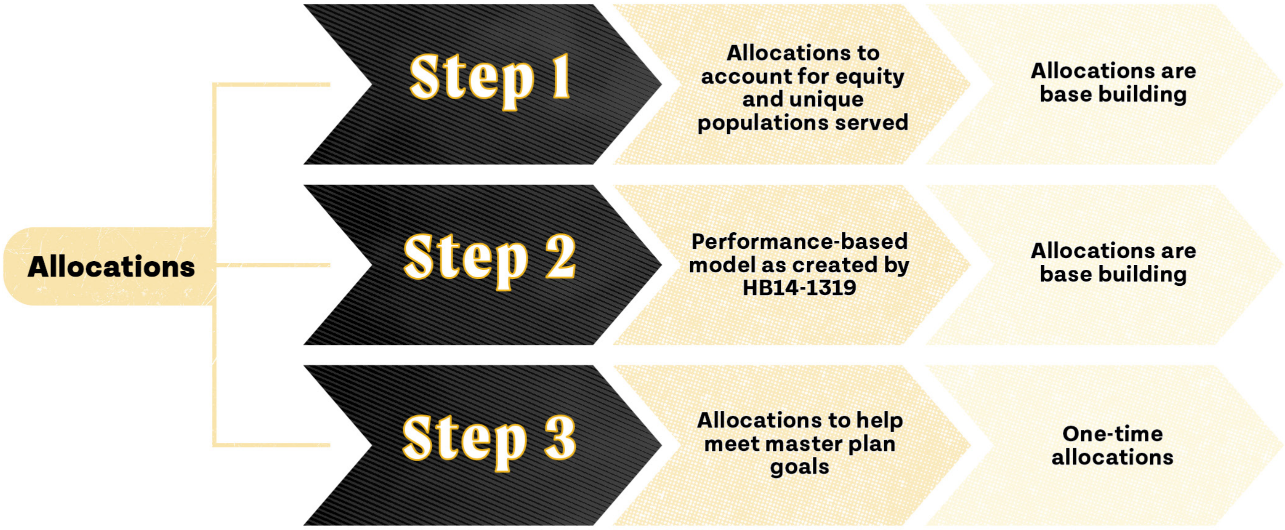
Source: Bell Policy Center analysis of data provided by JBC staff

Current Formula: Creating a Framework for Equity

During the 2020 legislative session, Colorado passed a new funding formula per the Commission of Higher Education's recommendation. This formula maintains the performance-based formula established by HB14-1319 but adds two additional components. HB20-1399 gives the JBC more flexibility in allocating funds to institutions by adding two possible streams for funds outside of the performance-based stream to target funds to certain populations or institutions. The first addition, referred to as "Step 1" allows the JBC to allocate funds to institutions based on the share of particular population groups they serve. Recognizing that institutions serving higher shares of first-generation students, low-income students, and students of color need additional resources to support students who, historically, have faced additional barriers to access, this step was intended to provide opportunities to right-size allocations to institutions. As such, allocations made through Step 1 are "base-building," meaning they carry over to the next year and are the starting point for allocations that year. To avoid volatile year-over-year changes in funding so institutions can plan financially, allocations are adjusted so that funding is based, in part, on the previous year's allocation.

"Step 2" of the formula maintains the performance model as previously designed. "Step 3" of the formula allows for JBC to make any one-time allocations as they see fit. The intent behind this was for JBC to be able to make one-time investments to institutions to help them meet master plan goals.[13] For example, an institution might receive additional dollars for programs or services to help increase the credential attainment for Black Coloradans. These changes, taken together, maintain many of the goals around master plan alignment and transparency of funding. However, they also create a framework that allows for bolder and more dramatic investments to be made for the sake of equity of access.

Funding Formula Components: The JBC can decide to funnel any portion of appropriations through the following "Steps." For example, funneling 100 percent of appropriations through Step 2 would preserve the allocation model as written in HB14-1319. However, the JBC can opt to spend 90 percent on Step 2, and 10 percent on Step 1, or in any other combination of their choosing.



Understanding Postsecondary Education as a Public Good

Today, our postsecondary education system is akin to our K-12 system: a necessity for people to lead high-quality lives.[14] If postsecondary education persists in its current state of inaccessibility, we will continue to perpetuate class-based inequality for low-income Coloradans who cannot access this necessary vehicle for good employment and upward mobility.[15] For our postsecondary education system to have the outcomes we want around workforce development, it is important to recognize today's postsecondary education is much closer to being a public good for all than a private good for those who can afford it.[16]

However, this has not always been how postsecondary education has been perceived, hence funding models centered performance outcomes over equity in access. While, historically, the priority may not have been access but completion of those accessing postsecondary education, in order to remain competitive in a national economy, today it is clear that without universal access, it will be impossible for Colorado to be competitive. Thus, over the past decade, equity has become central to our measures of success in education systems.

Accordingly, the updated state master plan in 2017, Colorado Rises, focuses on equity of access and completion.[17] This shift in focus has subsequently led to shifts in our funding formula. We understand postsecondary education needs to be a public good to truly have the workforce outcomes and quality of life for all Coloradans we want as a state. In order to meet this goal, public funding of our postsecondary institutions needs to be more robust so anyone can access postsecondary education.

What It Would Look Like

At its core, the vision for postsecondary education as a public good means securing additional protections to postsecondary education funding at the state level while increasing funding to improve access. Securing funding and reducing volatility could occur through protections and guarantees for Coloradans to receive a postsecondary education. If every subsequent recession leads to cuts to CDHE's budget, it will be impossible to provide the financial supports for students to realistically access postsecondary education. Therefore, implementing safeguards around spending for postsecondary education, including a dedicated funding stream for postsecondary education, will be critical.

Secondly, in the status quo, the cost burden that tuition poses to students is too high. This makes it impossible to truly center equity as the cost burden is disproportionately borne on communities of color and low-income communities. While there are many smaller scale policy solutions that can help address components of affordability, big and broad ideas like free college for all Coloradans, beginning with free community college, lay the groundwork for universal access that is necessary to meet our goals around equity. Several states have begun moving in this direction. For example, Oregon has a grant program that helps cover community college tuition for any high school graduate or student with a GED.[18]

Today, access to postsecondary education is both vital for a good job and inaccessible to far too many. Ensuring funding for postsecondary institutions is sufficient to reduce the cost burden for students and to ensure everyone in Colorado can have access to postsecondary education is critical. This means continuing to emphasize resident enrollment and the unique needs of different populations in our funding formulas. To wit, universal access to postsecondary education, in practice, needs to be the goal of our funding models.

Endnotes

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