

SURVIVING FINANCIAL CHALLENGES IN COLORADO PUBLIC HIGHER EDUCATION



University of Colorado
Office of the President
Office of the Vice President for Budget & Finance
December 2003

The decade of the 1990s saw strong economic growth in Colorado providing for a twofold increase in the state budget. This growth was an impetus for the state to adopt fiscal growth measures, spending limitations, and tax cuts as well as provide for the accelerated growth in various state agencies' obligations. More recently, because of the reversal in economic trends over the last three years, the state has had to make very difficult choices to live within its constitutional and statutory limitations delineated by TABOR (Taxpayers Bill of Rights), and Amendment 23, as well as Arveschoug-Bird. The combination of the state's economy and these statutory and constitutional requirements has the very real potential for placing Colorado's higher education institutions at significant financial risk. As we look to the future, assuming the same historical 10-year average annual growth rate for all state agencies, by FY 2009, there could, conceivably, not be enough General Fund revenues available to fund higher education (see Figure 1).

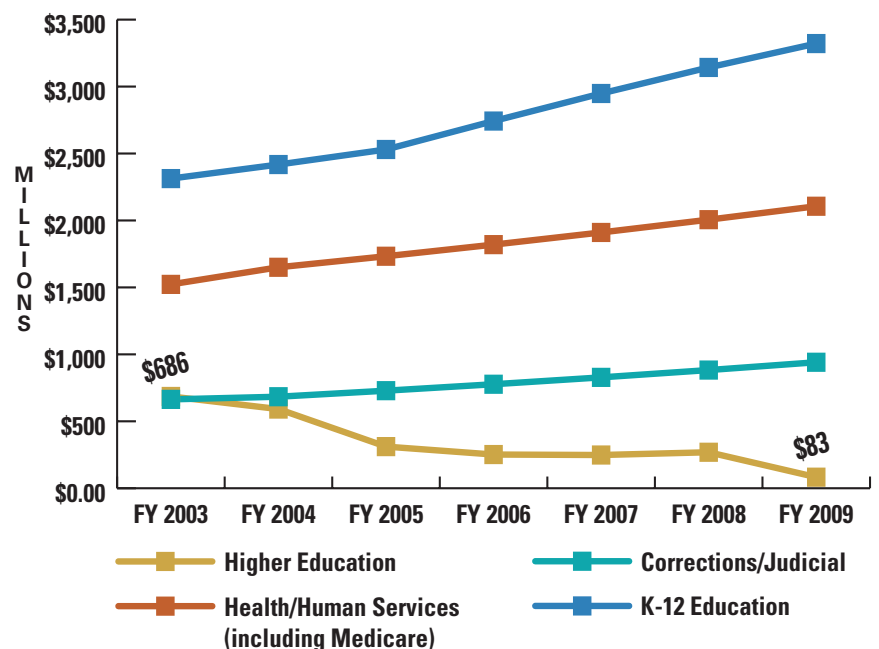
The combination of a weak economy and the statutory and constitutional restrictions on the state budget have created a structural deficit and compounded an already limited discretionary funding, decision-making process. As a result, all state agencies have experienced budget cuts, with higher education sustaining a disproportionately larger General Fund reduction because:

1. it is considered a balancing mechanism of the budget; and,
2. it is perceived that public higher education has the ability to generate new revenue through tuition increases.

However, public higher education does not have the ability or authority to increase tuition carte blanche. All tuition increases must be approved by the General Assembly in concert with the governor's office as well as adhere to revenue constraints imposed by TABOR, which are explained below. As the funding chart shows, higher education General Fund appropriations have declined from 20.3 percent in 1990 to 10.5 percent in 2004 (see Figure 2).

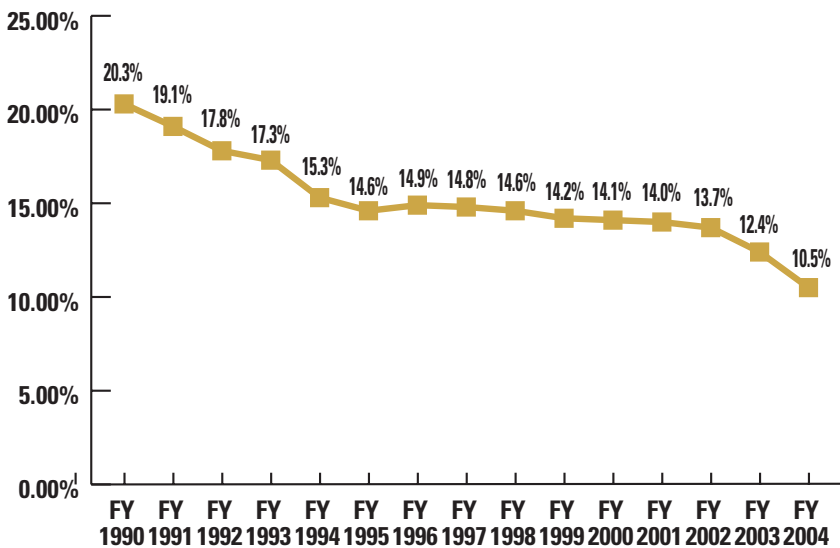
However, this decline in General Fund appropriation has not been offset by disproportionate tuition increases, and in fact, public higher education costs take a smaller portion of an average Colorado citizen's median income today than was true in 1995. Why is this true?

FIGURE 1
Projected GF Appropriations



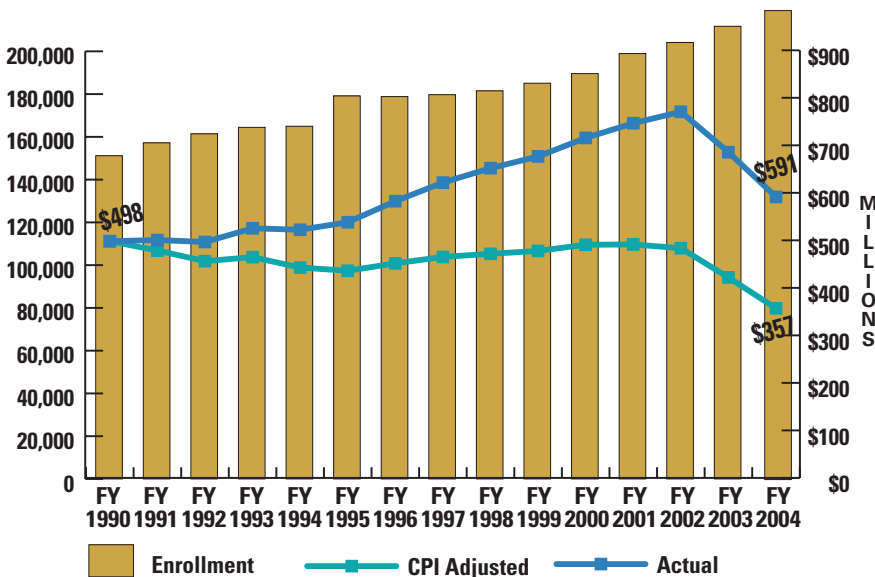
Prepared by the Office of the Vice President for Budget & Finance.

FIGURE 2
Higher Education—Share of General Fund



Data source: State of Colorado Joint Budget Committee Appropriations Reports FY1990–FY2004.

FIGURE 3
State Higher Education Appropriations and Enrollment Changes



Data source: Colorado Commission on Higher Education FTE Enrollment Report FY1990–FY2004; State of Colorado Joint Budget Committee Appropriations Reports FY1990–FY2004.

The answer is that tuition and fees count as state “cash” revenues under TABOR, thus limiting higher education’s ability to generate tuition and fee revenue, not only by market conditions, but also by restrictions imposed by the state. TABOR limits the state revenue growth to the rate of population growth plus inflation. If total state revenues grow at a faster rate than allowed by TABOR, those revenues have historically been refunded to the citizens of Colorado as General Fund refunds. To limit the need for refunds, the state has restricted growth on most cash funds, including tuition and fees at higher education institutions.

As a result of this policy, at a time (FY1995–FY2004) when median family incomes have increased 50.8 percent, and the tax burden on the average household has declined to 15.8 percent, state support for higher education as a percentage of median income has declined, with General Fund support for the entire Department of Higher Education being reduced from a high of \$770.6 million in FY 2002 to \$591.0 million in FY 2004 (see Figures 3 and 4).

The net effect of this translates into a reduction in student support of \$179.3 million. During this same time period, tuition for research universities also declined as a percentage of median income from 8.7 percent to 7.3 percent.

Further compounding these budgetary reductions, state public higher education institutions absorbed a 16.2 percent (19,004 statewide) increase in new resident students. The effect of this increase further diminished the state support in FY 2004 on a per student basis to an average \$3,709 statewide, bringing public higher education funding per student back to lower than its FY 1995 levels.

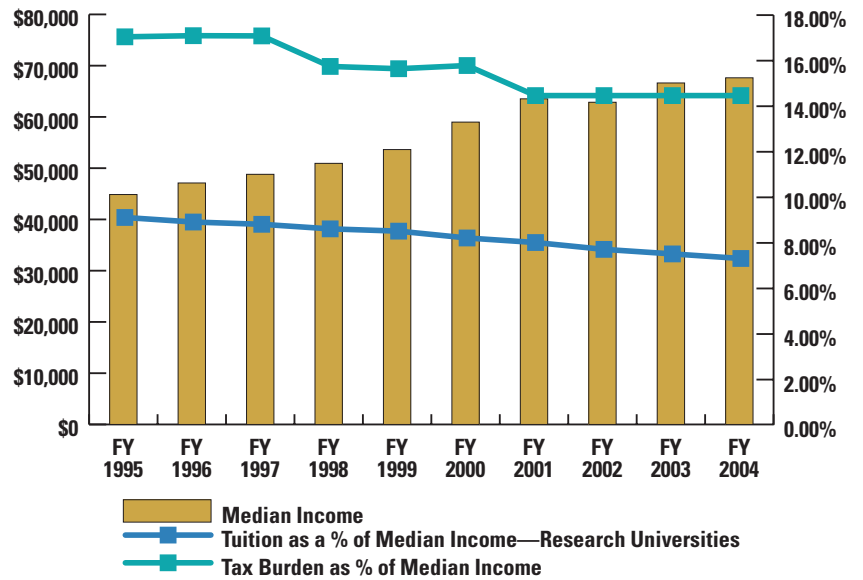
In addition to these factors, higher education’s purchasing power has been eroded by increases in fixed costs of services necessary to educate students. As the demographics of students change, the number of nontraditional and part-time students has increased on campuses. Nontraditional and part-time students actually cost more to educate because traditionally, 1.0 FTE equated to one student. With the increase in part-time students, 1.0 FTE now translates into several students. This has caused institutions to increase support staff and services to handle the additional number of students on campus. Other factors that contribute to increasing costs to universities in general include increasing instructional expenditures, increasing health benefits, increasing costs of technology, increasing costs of utilities, increasing demand for facilities, increasing institutional financial aid budgets, and increasing need for remedial education.

What does this mean for CU?

From FY 1995 to FY 2004, General Fund appropriations to the three general University of Colorado campuses increased \$2.4 million or 1.6 percent. This translates to an average annual growth rate of 0.2 percent for the last 10 years. The university’s General Fund growth slowed significantly in the early 2000s because of major General Fund cuts (\$79 million) since FY 2001 (see Figure 5).

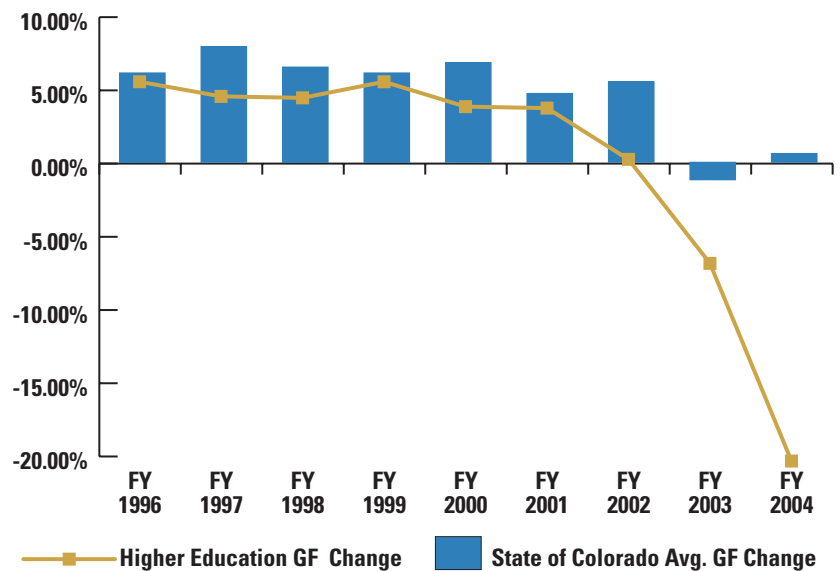
Even though the university’s General Fund appropriations have increased on average 0.2 percent each year for the last 10 years, the state is providing less funding in real dollars than in FY 1995. Adjusting for inflation, the FY 2004 appropriation has decreased 24.4 percent (see Figure 6).

FIGURE 4
Colorado Tax Burden and State Funding as a Percent of Colorado Median Income



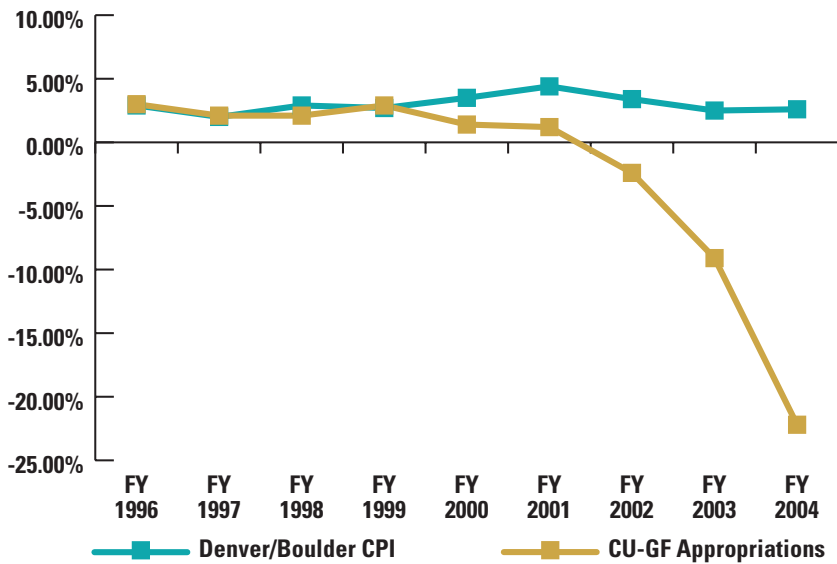
Data Source: State of Colorado Department of Local Affairs
Note: Tax burden as a percentage of median income was not available for FY2003 and FY2004, maintained previous year’s percentage.

FIGURE 5
Percent Change in GF Appropriations: Higher Education Operating vs. State Operating Increases



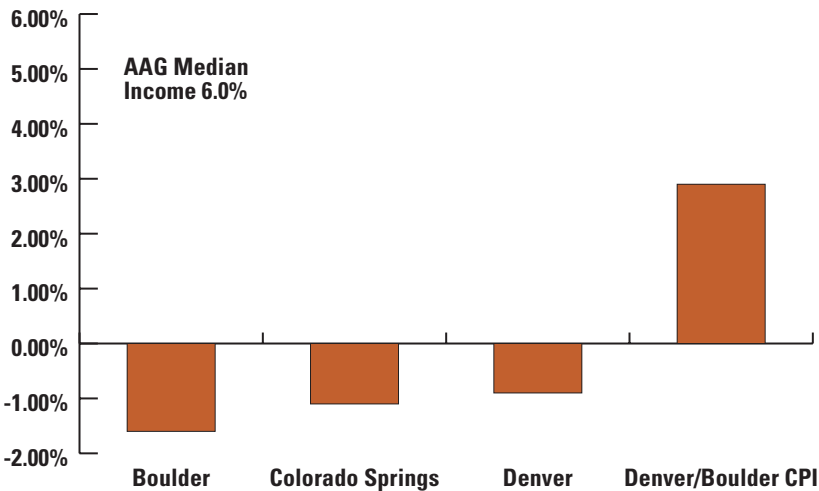
Data source: State of Colorado Joint Budget Committee Appropriations Reports FY1990–FY2004.

FIGURE 6
Inflation Adjusted
General Fund Appropriations to CU



Data source: Office of the Vice President for Budget & Finance.

FIGURE 7
Inflation Adjusted General Fund, Tuition, and Fees
per Student FTE at CU



Data source: Office of the Vice President for Budget & Finance

Combining the university’s General Fund appropriation and tuition increases over the same 10-year period shows the same situation as experienced by all of higher education (see Figure 7).

Given the economic reality of the Colorado state budget and the statutory limitations placed on the executive and legislative branches, it now seems evident that a new funding mechanism is necessary to ensure that state higher education institutions receive the essential funding required to educate resident students. This becomes particularly evident when one looks at the \$10,121 competitive resources gap that exists between the Boulder campus and its peer institutions on a per student basis as exemplified by Figure 8.

Possible Solutions

Absent changes to TABOR, including Arveschoug-Bird, Amendments 23 and Gallagher, the most practical solution to the state’s budget dilemma is to remove higher education from the TABOR calculation and restructure the relationship between the governing boards and the state. To accomplish this, the legislature would need to adopt a comprehensive higher education act that includes College Opportunity Funds, enterprise status for institutions of higher education, and performance-based contracts. The following concepts are currently being discussed among the Colorado Commission on Higher Education and the leaders of public higher education.

- College Opportunity Funds (COF) would ensure base-level funding for all resident students attending a public institution of higher education. These grants would be provided to resident students for use at Colorado public colleges and universities of their

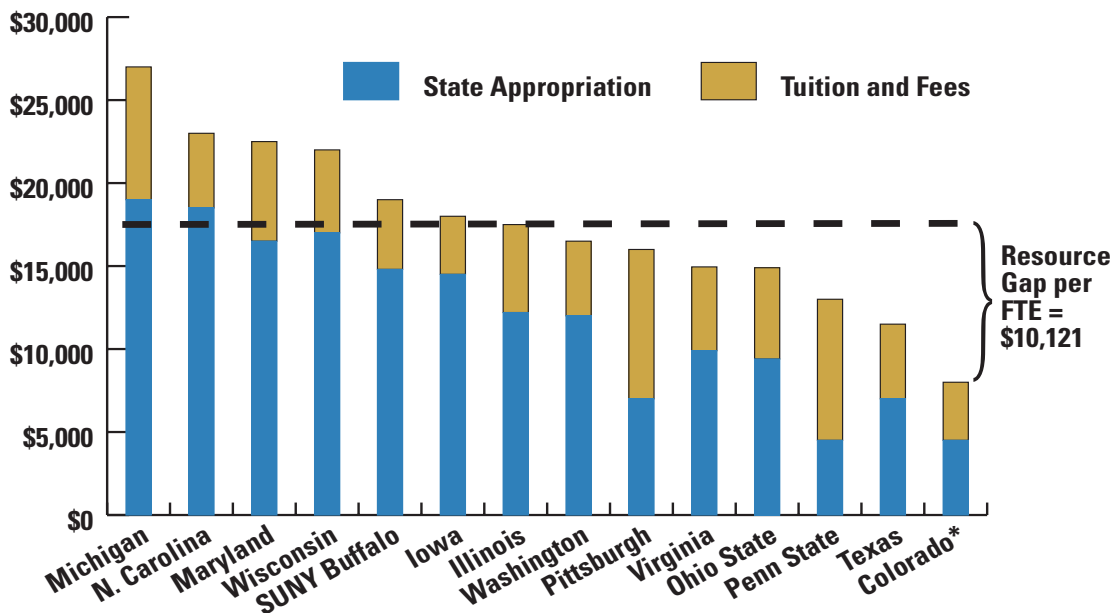
choice. The amount of the grants could be directly linked to a student's major by an algorithm that limits the state's financial liability while providing a student sufficient time to earn a degree. The COF would be student directed, allowing the governing boards to be eligible for enterprise status, and therefore removing the cash funds from the constraints of TABOR.

- Enterprise status would allow greater management and regulatory flexibility, along with an ability to set tuition rates within legislatively prescribed limits. Enterprise status would also permit institutions to bond against tuition and fee revenue in order to address critical capital priorities when state funding is not available.
- Performance contracts would be negotiated individually with each of Colorado's public higher education governing boards and define the

limits of each institution's enterprise status. As is the case with the Colorado School of Mines, such a contract could stabilize General Fund appropriations, set parameters for future tuition increases, and provide accountability for general fund support in addition to the COF. Performance contracts could also establish greater management flexibility that differentiated among Colorado's public higher education institutions within their legislatively prescribed role and mission statutes.

The University of Colorado System, along with the other Colorado public higher education governing boards, is at a crossroads. These three proposals offer the best path for insuring that Colorado is able to sustain a quality public higher education system that is accessible and affordable for all its citizens.

FIGURE 8
State Appropriations and Tuition per In-state Student FTE: FY2003



Data source: Data compiled by the University of Virginia, from a January 2003 query to selected members of the American Association of Universities Data Exchange.

*Includes only University of Colorado at Boulder data.

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No taxpayer dollars were used in the publication of this paper.