

**STATE and LOCAL
FISCAL IMPACT**

Drafting Number: LLS 14-0943 **Date:** April 3, 2014
Prime Sponsor(s): Rep. Ferrandino; Holbert **Bill Status:** House Education
 Sen. Lambert; Todd **Fiscal Analyst:** Josh Abram (303-866-3561)

SHORT TITLE: COLLEGE AFFORDABILITY ACT

Fiscal Impact Summary*	FY 2013-14	FY 2014-15	FY 2015-16
State Revenue			
State Expenditures	<u>\$112,487</u>	<u>\$376,149</u>	<u>\$181,074</u>
General Fund	112,487	357,505	161,342
Centrally Appropriated Costs**		18,644	19,732
FTE Position Change	0.2 FTE	1.5 FTE	1.5 FTE
Appropriation Required: \$112,487 - Department of Higher Education (FY 2013-14) \$357,505 - Department of Higher Education (FY 2014-15)			

* This summary shows changes from current law under the bill for each fiscal year.

** These costs are not included in the bill's appropriation. See the State Expenditures section for more information.

Summary of Legislation

This bill creates a new mechanism for allocating state funds to institutions of higher education.

Fee-for-service contracts. Beginning with state appropriations for FY 2015-16, governing boards of institutions of higher education may negotiate a fee-for-service contract (FFS contract) with the Department of Higher Education (DHE). Each FFS contract must include the following components:

- an institutional base amount (institutional base), which the General Assembly sets in the annual appropriations act (the Long Bill), and that is the same for each governing board, and allocated among the governing boards' campuses;
- low-enrollment funding for small and medium-sized four-year institutions, and small community colleges, determined as a percentage of the institutional base;
- research funding for specific institutions, determined as a percentage of the institutional base;
- graduate services funding, which the General Assembly sets annually in the Long Bill, and that an institution receives for graduate students enrolled at the institution;
- retention funding, which the General Assembly sets annually in the Long Bill, and that an institution receives for each junior and senior resident student enrolled at this institution; and

- degree funding, specified as a percentage of the institutional base for each certificate or degree, including associate, baccalaureate, and graduate degrees, that the institution awards each year.

The University of Colorado School of Medicine, and Colorado State University's (CSU) College of Veterinary Medicine, forest service, cooperative extension service, and other specialized educational services are exempt from these provisions. These schools may negotiate an annual FFS contract for the provision of specialized services; however, these contracts must equal the amount of the FFS contract with that institution for the preceding fiscal year, increased or decreased by a percentage equal to the percentage change in the total state appropriation for the applicable fiscal year, as compared with the preceding fiscal year. Direct state grants made to junior college districts and area vocational schools are adjusted in the same manner.

College Opportunity Fund stipends. Beginning with appropriations for FY 2015-16, the amount of a College Opportunity Fund (COF) stipend is set annually in the Long Bill by the General Assembly. If an eligible resident undergraduate qualifies for a federal Pell grant, the amount of the COF stipend for that student is increased by at least 10 percent.

For each fiscal year, the total appropriation for COF stipends must equal at least 57.5 percent of the total state appropriation (COF + FFS contracts); however, following certification of actual enrollment each year, the percentage may be less than 57.5 percent.

Total appropriation. In any fiscal year, the total appropriation for a governing board of a higher education institution is the combination of FFS contracts and the amount of COF stipends an institution receives for COF-eligible students. This total governing board appropriation may not change from the preceding fiscal year by a percentage that is more or less than five percentage points greater than the percentage change in the total state appropriation for all governing boards in the previous fiscal year. In any fiscal year in which the sum of the total state appropriation, including FFS contracts for specialized educational services, decreases by greater than 15 percent from the previous fiscal year, the provisions related to total appropriations do not apply.

Colorado Commission on Higher Education (CCHE) and DHE. In FY 2014-15 only, the CCHE and the DHE may convene a meeting of governing boards of the state institutions of higher education and other interested parties to review the provisions of HB 14-1319. Following this meeting, the CCHE may make recommendations to the Joint Budget Committee for amending provisions in the bill.

If there are insufficient moneys in the COF after the final student count in an academic year, up to 10 percent of the amount annually authorized through a FFS contract may be expended by the same governing board for COF stipends. The DHE may transfer an equivalent amount in a governing board's FFS contract obligations to the governing board's authority to spend COF stipends.

State Expenditures

The total amount of state appropriations for the system of higher education is unchanged by the bill. The General Assembly determines an annual amount of funding for the system. This bill changes how that total amount is allocated to the institutions, but does not place restrictions or requirements on the amount the General Assembly chooses to appropriate. The bill increases state expenditures to implement the new allocation model, as described below.

In the current fiscal year (FY 2013-14), this bill increases state expenditures in the DHE by \$112,487 and 0.2 FTE. Increased expenses in FY 2014-15 are \$376,149 and 1.5 FTE. For FY 2015-16 and beyond, the bill increases expenditures by \$181,074 and 1.5 FTE. Total expenses are displayed in Table 1 and described below.

Table 1. Expenditures Under HB 14-1319			
Cost Components	FY 2013-14	FY 2014-15	FY 2015-16
Personal Services	\$22,487	\$134,917	\$134,917
FTE	0.2 FTE	1.5 FTE	1.5 FTE
Operating Expenses and Capital Outlay Costs	0	8,480	1,425
Information Technology Upgrades	0	180,000	0
NCHEMS Contract	90,000	25,000	25,000
Legal Services	0	9,108	0
Centrally Appropriated Costs*	0	18,644	19,732
TOTAL	\$112,487	\$376,149	\$181,074

* Centrally appropriated costs are not included in the bill's appropriation.

Implementation and staffing. The bill requires a substantial change in the way the DHE currently implements COF stipends and FFS contracts. For the budget submission and FFS contracts, the bill requires that the DHE:

- assist the CCHE to adopt policies to implement the revised funding formula;
- collect, verify, and analyze data for use in the budget request submission;
- work with the Department of Law and the institutions of higher education to draft new common content for FFS contracts and to make institution-specific modifications to FFS contracts for each governing board;
- negotiate FFS contracts with the governing boards, including additional contracts for specialized educational services;
- collect, verify, and analyze enrollment, retention, and other performance data; and
- convene stakeholder meetings, analyze the funding model, and make recommendations for changes to the law to the state legislature.

The DHE will need to hire a total of 1.5 FTE comprised of 1.0 FTE for the finance workload and 0.5 FTE for the data workload. New FTE is estimated as the equivalent of a Budget and Policy Analyst V and a General Professional VI. Both positions will be responsible for working with vendors and institutions to build a working funding model, analyze the model, gather feedback, and recommend amendments or other changes. Given the compressed time line to implement the bill, the DHE requires new FTE beginning in the current fiscal year.

Information technology costs. College Assist, a division in the DHE, administers the COF stipend program. The division does not have full-time information technology (IT) staff that can be dedicated to implementing the required changes. Additional funding is required for the division to contract for at least two outside IT professionals to implement IT upgrades within the available time frame. For FY 2014-15, the DHE can anticipate about 1,000 hours of contracted IT support at a blended rate of \$180 per hour.

Contracted services. Due to the complex nature of the proposed funding formula, the DHE will contract with an outside organization to create and maintain a working allocation model. In 2013, the department contracted with the National Center for Higher Education Management Systems (NCHEMS) to create the performance funding model required by Senate Bill 11-052. Due to the short time line for implementation, the DHE requires funding to contract with NCHEMS in the current fiscal year. The model developed by NCHEMS is anticipated to require yearly maintenance and upgrades. Current estimates are \$90,000 to contract for creation of the model in FY 2013-14, and \$25,000 annually thereafter to maintain and update the model.

Legal services. The DHE must purchase legal services from the Department of Law to draft FFS contracts that can be modified for each institution. The DHE will purchase 100 hours of legal services at a blended rate of \$91.08 an hour.

Centrally appropriated costs. Pursuant to a Joint Budget Committee policy, certain costs associated with this bill are addressed through the annual budget process and centrally appropriated in the Long Bill or supplemental appropriations bills, rather than in this bill. The centrally appropriated costs subject to this policy are estimated in the fiscal note for informational purposes and summarized in Table 2.

Table 2. Centrally Appropriated Costs Under HB 14-1319*			
Cost Components	FY 2013-14	FY 2014-15	FY 2015-16
Employee Insurance (Health, Life, Dental, and Short-term Disability)	\$0	\$9,275	\$9,275
Supplemental Employee Retirement Payments	0	9,369	10,457
TOTAL	\$0	\$18,644	\$19,732

*More information is available at: <http://colorado.gov/fiscalnotes>

Institutions of Higher Education Impact

Each institution of higher education will experience a change in its governing board's state appropriation as a result of the new allocation model. Each year, the General Assembly determines a total amount to appropriate to the system of higher education, which total is allocated by enrollment and by FFS contracts negotiated with the CCHE. HB 14-1319 will change this allocation method, which may result in changes to each individual institution's final allocation. That final allocation may be more than, less than, or equal to the allocation received under current law.

Effective Date

The bill takes effect upon signature of the Governor, or upon becoming law without his signature.

State Appropriations

For FY 2013-14, this bill requires an appropriation of \$112,487 General Fund and 0.2 FTE to the Department of Higher Education.

For FY 2014-15, this bill requires an appropriation of \$357,505 General Fund and 1.5 FTE to the Department of Higher Education.

State and Local Government Contacts

Higher Education

Law