

Colorado Legislative Council Staff Fiscal Note

**STATE and LOCAL  
REVISED FISCAL IMPACT**

(replaces fiscal note dated April 14, 2014)

**Drafting Number:** LLS 14-0943 **Date:** April 25, 2014  
**Prime Sponsor(s):** Rep. Ferrandino; Holbert **Bill Status:** Senate Education  
 Sen. Lambert; Todd **Fiscal Analyst:** Josh Abram (303-866-3561)

**SHORT TITLE:** OUTCOMES-BASED FUNDING FOR HIGHER EDUCATION

Fiscal Impact Summary*	FY 2013-14	FY 2014-15	FY 2015-16
<b>State Revenue</b>			
<i>State Transfers (State Diversions)</i> General Fund State Education Fund	See State Revenue section.		
<b>State Expenditures</b>	<b><u>\$172,551</u></b>	<b><u>\$766,284</u></b>	<b><u>\$350,643</u></b>
General Fund	172,551	728,995	311,178
Centrally Appropriated Costs**		37,289	39,465
<b>FTE Position Change</b>	0.2 FTE	3.0 FTE	3.0 FTE
<b>Appropriation Required:</b> \$172,551 - Department of Higher Education (FY 2013-14) \$728,995 - 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**

**As amended by the House Education Committee**, this bill creates a new mechanism for allocating state funds to institutions of higher education.

**Fee-for-service contracts.** Beginning with 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 a combination of institutional role and mission funding, and institutional performance funding.

The components of institutional role and mission funding must include the following:

- institutional mission funding, which must consider selectivity of admissions, the number of campuses, the institution's rural or urban location, low student enrollment issues, and research status;
- support service funding for Pell-eligible, first generation, and underserved undergraduate students;
- graduate program funding;
- remediation funding for institutions authorized to offer basic skills courses; and
- up to two additional role and mission factors to be determined by the Colorado Commission on Higher Education (CCHE).

The components of institutional performance funding must be based on the following metrics:

- completion funding for each certificate or degree conferred by an institution, or transfers from community colleges;
- retention funding for students making sufficient academic progress toward completion; and
- up to two additional performance metrics to be determined by the CCHE.

Area vocational schools, local district junior colleges, and institutions of higher education offering specialty education programs are provided exceptions to these requirements. Instead, these institutions' funding, either as negotiated FFS contracts or direct grants, must increase or decrease by an amount proportional to the funding change in the total state appropriation for institutions of higher education from the previous year. Other institutions that experience a financial hardship and potential closure as a result of the new allocation may also receive approval to negotiate FFS contracts as a specialty program.

**Total appropriations.** From FY 2015-16 through FY 2019-20, each governing board's total appropriation may only be five percentage points greater or less than the percentage change in the total state appropriation for all governing boards in the preceding year. Beginning with FY 2020-21, the CCHE may recommend that appropriations be adjusted this way when appropriate.

**College Opportunity Fund (COF) stipends.** Beginning in FY 2015-16, the total annual appropriation for COF stipends must be at least 52.5 percent of the total state appropriation for the applicable fiscal year. In the event of an economic downturn that creates a hardship for the system to comply with this requirement, the CCHE and DHE may request supplemental funding; however, the request must be approved by a joint resolution of the General Assembly.

**Colorado Commission on Higher Education.** No later than January 1, 2015, the CCHE must determine the components of the FFS contracts, the factors and weights for calculating role and mission funding, and the performance metrics and weights for calculating performance funding. The CCHE is required to hire a facilitator and convene a series of meetings with interested parties to develop the FFS contract components. The CCHE is also required to work with interested parties to develop a tuition policy. On July 1, 2016, and each July 1 through 2020, the CCHE must submit a status report on implementation of the new allocation method to the Joint Budget Committee and the education committees of the General Assembly.

## **State Revenue**

Under current law, 100 percent of the excess General Fund at the end of FY 2013-14 (the current fiscal year) will be transferred to the State Education Fund. This bill increases General Fund expenditures in FY 2013-14, and therefore reduces the amount available at year-end to transfer to the State Education Fund.

## **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 \$172,551 and 0.2 FTE. Increased expenses are \$766,284 and 3.0 FTE in FY 2014-15 and \$350,643 and 3.0 FTE in FY 2015-16.*** Total expenses are displayed in Table 1 and described below.

<b>Cost Components</b>	<b>FY 2013-14</b>	<b>FY 2014-15</b>	<b>FY 2015-16</b>
Personal Services	\$44,137	\$269,836	\$269,836
FTE	0.2 FTE	3.0 FTE	3.0 FTE
Operating Expenses and Capital Outlay Costs	0	16,959	2,850
Legal Services	0	18,216	0
Travel and other administrative expenses	4,414	26,984	13,492
Contract Services: Project Manager	24,000	72,000	0
Contract Services: Facilitator and Meeting Expenses	40,000	160,000	0
Contract Services: NCHEMS Model Construction	60,000	165,000	25,000
Centrally Appropriated Costs*	0	37,289	39,465
<b>TOTAL</b>	<b>\$172,551</b>	<b>\$766,284</b>	<b>\$350,643</b>

\* 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;
- 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 General Assembly.

The DHE will need to hire a total of 3.0 FTE, comprised of 2.0 FTE for the finance workload and 1.0 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 contractors, 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 fractional FTE beginning in the current fiscal year.

**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 200 hours of legal services at a blended rate of \$91.08 an hour in FY 2014-15.

**Travel and other administrative expenses.** Due to the collaborative nature of developing and implementing a new funding formula, the DHE requires appropriations for in-state travel, and to conduct forums and stakeholder meetings, in addition to other operating costs. This overhead amount was estimated at 10 percent of new personnel costs for FY 2013-14 and FY 2014-15, and at 5 percent of new personnel costs in FY 2015-16.

**Contract services: project manager.** Given the breadth and complexity of the allocation model to be developed, and the need to connect multiple groups of interested parties, the DHE will contract for a project manager to serve as a central contact point for the project. Typical rates for project managers in the private sector are estimated to be \$12,000 monthly. Given the compressed time frame for model development, the DHE anticipates a one-time cost of \$96,000 for a project manager beginning May 2014 (\$24,000 for 2 months cost in FY 2013-14 and \$ 72,000 for 6 months cost in FY 2014-15). This rate is consistent with the average annual labor market earnings of an experienced individual with a Project Management Certification (PMP).

**Contracted services: facilitator and meeting expenses.** The DHE is required to work with interested parties – which includes, but is not limited to governing boards of institutions of higher education, higher education advocates, students, faculty, nonprofit education organizations, and members of the business community – to determine the components of the FFS contract. The bill requires that the CCHE retain a professional facilitator to attend meetings and facilitate the work of interested parties and the commission. To complete the requirements of the bill within the specified time line, DHE will convene six large meetings with all interested parties and ten smaller working group meetings. The cost to contract for a professional facilitator and conduct the necessary meeting and work group activities is estimated at \$40,000 in FY 2013-14 and \$160,000 in FY 2014-15.

**Contracted services: NCHEMS model construction.** 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 \$60,000 in FY 2013-14 for NCHEMS to begin creating the model, and \$165,000 FY 2014-15 to complete the contract. Ongoing, the DHE can anticipate about \$25,000 annually thereafter to maintain and update the model.

**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.

<b>Table 2. Centrally Appropriated Costs Under HB 14-1319*</b>			
<b>Cost Components</b>	<b>FY 2013-14</b>	<b>FY 2014-15</b>	<b>FY 2015-16</b>
Employee Insurance (Health, Life, Dental, and Short-term Disability)	\$0	\$18,550	\$18,550
Supplemental Employee Retirement Payments	0	18,739	20,915
<b>TOTAL</b>	<b>\$0</b>	<b>\$37,289</b>	<b>\$39,465</b>

\*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 \$172,551 General Fund and 0.2 FTE to the Department of Higher Education.

For FY 2014-15, this bill requires an appropriation of \$728,995 General Fund and 3.0 FTE to the Department of Higher Education.

### **State and Local Government Contacts**

Higher Education

Law