



OFFICE OF THE STATE AUDITOR



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STATE AUDITOR

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HIGHER EDUCATION ENTERPRISE STATUS

Members of the Legislative Audit Committee:

Under Section 23-5-101.7(2), C.R.S., a higher education governing board may designate its respective institution(s) as an enterprise for purposes of Article X, Section 20 of the Colorado Constitution (Taxpayer's Bill of Rights or TABOR). Article X, Section 20(2)(d), defines a TABOR enterprise as "a government owned business authorized to issue its own revenue bonds and receiving under 10% of annual revenue in grants from all Colorado state and local governments combined." Entities that meet the definition of a TABOR-exempt enterprise are exempt from the revenue growth and spending limitations of TABOR. The Office of the State Auditor and the Legislative Audit Committee (LAC) are required to review whether such designations meet the requirements of a TABOR-exempt enterprise.

ENTERPRISE DESIGNATION

The LAC reviewed and approved the following institutions as enterprises in prior years:

- Adams State University
- Colorado Community College System
- Colorado School of Mines
- Colorado State University System
- Fort Lewis College

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- Colorado Mesa University
- Metropolitan State University of Denver
- University of Colorado System
- University of Northern Colorado
- Western State Colorado University

Determination of continuing enterprise status is made at the end of the fiscal year after final financial information is known. This memo provides the final enterprise status of the 10 institutions listed above for Fiscal Year 2017, and their projected enterprise status for Fiscal Year 2018.

FINAL ENTERPRISE STATUS FOR FISCAL YEAR 2017

During Fiscal Year 2017, all higher education institutions reported that they received some level of direct financial support from the State. EXHIBIT 1.1 shows the amount of revenue earned and state support received by the higher education enterprises for Fiscal Year 2017. EXHIBIT 1.1 also shows that nine of the 10 institutions received less than 10 percent of their total revenue from the State and thereby qualified for TABOR-exempt enterprise status.

**EXHIBIT 1.1. HIGHER EDUCATION TABOR-EXEMPT ENTERPRISE STATUS
ACTUAL REVENUES AND STATE AND LOCAL SUPPORT
FISCAL YEAR 2017**

| | TOTAL REVENUE | STATE SUPPORT GENERAL FUND APPROPRIATION (NOTE 1) | STATE SUPPORT CAPITAL APPROPRIATION (NOTE 2) | OTHER STATE AND LOCAL SUPPORT (NOTE 3) | TOTAL STATE AND LOCAL SUPPORT | TOTAL SUPPORT AS A PERCENTAGE OF TOTAL REVENUE (NOTE 4) |
|-----------------------------------------|---------------|---------------------------------------------------------------|-------------------------------------------------------|----------------------------------------------|----------------------------------|---------------------------------------------------------------------|
| ADAMS STATE UNIVERSITY | \$ 59,812,228 | \$ - | \$ 4,696,675 | \$ - | \$ 4,696,675 | 7.9% |
| COLORADO COMMUNITY COLLEGE SYSTEM | 640,470,621 | 5,400,000 | 8,875,436 | 5,672,603 | 19,948,039 | 3.1% |
| COLORADO SCHOOL OF MINES | 271,128,275 | - | 9,440,554 | 3,930,305 | 13,370,859 | 4.9% |
| COLORADO STATE UNIVERSITY SYSTEM | 1,285,011,104 | - | 31,082,670 | 1,445,576 | 32,528,246 | 2.5% |
| FORT LEWIS COLLEGE | 77,744,162 | - | 4,689,250 | 234,072 | 4,923,322 | 6.3% |
| COLORADO MESA UNIVERSITY | 157,176,869 | - | 12,230,212 | 1,989,526 | 14,219,738 | 9.0% |
| METROPOLITAN STATE UNIVERSITY OF DENVER | 197,742,772 | - | 6,001,709 | 135,217 | 6,136,926 | 3.1% |
| UNIVERSITY OF COLORADO SYSTEM | 4,242,745,308 | - | 33,440,727 | 24,399,529 (NOTE 5) | 57,840,256 | 1.4% |
| UNIVERSITY OF NORTHERN COLORADO | 239,214,916 | - | 15,242,549 | 1,048,794 | 16,291,343 | 6.8% |
| WESTERN STATE COLORADO UNIVERSITY | 64,103,036 | - | 6,191,601 | 1,262,387 | 7,453,988 | 11.6% |

SOURCE: Office of the State Auditor analysis of institution-provided financial information.
NOTE 1: Represents appropriations of \$4,500,000 for Colorado First Customized Job Training, and \$900,000 for Occupational Education for CCCS.
NOTE 2: Amounts within this column represent capital funds used during Fiscal Year 2017 and may not equal capital funds appropriated for any one year.
NOTE 3: Represents state support received from annual lease payments for capital projects financed by state Certificates of Participation, other state support, and local government support. Local government support included funds from the City of Grand Junction and Mesa County pledged for debt service for Colorado Mesa University, and funds from Denver Public Schools for summer camp and tutoring programs with Metropolitan State University of Denver.
NOTE 4: Institutions that receive 10 percent or more in state and local support in a given fiscal year do not qualify as TABOR-exempt enterprises.
NOTE 5: Included in other state support is \$15,325,373 from the Tobacco Litigation Settlement Money's Health Education Fund for the University of Colorado. Other state support also consists of \$7,249,326 received from annual lease payments for capital project financed by state Certificates of Participation related to the Anschutz Medical Campus.

PROJECTED TABOR ENTERPRISE STATUS FOR FISCAL YEAR 2018

EXHIBIT 1.2 shows the estimated amount of revenue expected to be earned and state and local support expected to be received by higher education enterprises in Fiscal Year 2018, as reported by each higher education institution. Based on current projections, all of the

institutions are expected to be below the 10 percent threshold for Fiscal Year 2018. Additionally, it should be noted that one institution, the University of Northern Colorado, is projected to be slightly under the 10 percent threshold at approximately 9.6 percent. Final results could result in the University losing its enterprise status for Fiscal Year 2018 if it exceeds 10 percent.

**EXHIBIT 1.2. HIGHER EDUCATION TABOR-EXEMPT ENTERPRISE STATUS
ESTIMATED REVENUES AND STATE AND LOCAL SUPPORT
FISCAL YEAR 2018**

| | TOTAL REVENUE | STATE SUPPORT GENERAL FUND APPROPRIATION (NOTE 1) | STATE SUPPORT CAPITAL APPROPRIATION (NOTE 2) | OTHER STATE AND LOCAL SUPPORT (NOTE 3) | TOTAL STATE AND LOCAL SUPPORT | TOTAL SUPPORT AS A PERCENTAGE OF TOTAL REVENUE (NOTE 4) |
|-----------------------------------------|---------------|------------------------------------------------------------|-------------------------------------------------------|----------------------------------------------|----------------------------------|------------------------------------------------------------------|
| ADAMS STATE UNIVERSITY | \$ 53,518,867 | \$ - | \$ 978,032 | \$ - | \$ 978,032 | 1.8% |
| COLORADO COMMUNITY COLLEGE SYSTEM | 672,572,903 | 5,400,000 | 5,450,987 | 5,806,049 | 16,657,036 | 2.5% |
| COLORADO SCHOOL OF MINES | 284,959,504 | - | 1,908,207 | 4,699,539 | 6,607,746 | 2.3% |
| COLORADO STATE UNIVERSITY SYSTEM | 1,410,783,765 | - | 3,922,302 | 1,919,242 | 5,838,544 | 0.4% |
| FORT LEWIS COLLEGE | 74,254,930 | - | 270,176 | 280,285 | 550,461 | 0.7% |
| COLORADO MESA UNIVERSITY | 153,018,335 | - | 1,000,000 | 1,919,249 | 2,919,249 | 1.9% |
| METROPOLITAN STATE UNIVERSITY OF DENVER | 194,691,965 | - | - | 135,217 | 135,217 | 0.1% |
| UNIVERSITY OF COLORADO SYSTEM | 3,923,426,775 | - | 8,997,114 | 19,134,410 (NOTE 5) | 28,131,524 | 0.7% |
| UNIVERSITY OF NORTHERN COLORADO | 250,486,144 | - | 22,880,965 | 1,244,806 | 24,125,771 | 9.6% |
| WESTERN STATE COLORADO UNIVERSITY | 59,341,877 | - | 2,243,514 | 1,673,410 | 3,916,924 | 6.6% |

SOURCE: Office of the State Auditor analysis of Fiscal Year 2018 projections provided by each higher education institution.
NOTE 1: This amount represents appropriations of \$4,500,000 for Colorado First Customized Job Training and \$900,000 for Occupational Education for CCCS.
NOTE 2: Amounts within this column represent estimated capital funds to be used during Fiscal Year 2018 and may not equal capital funds appropriated for any one year.
NOTE 3: This amount represents state support received from annual lease payments for capital projects financed by State Certificates of Participation, other state appropriations, and local government support.
NOTE 4: Any institution that receives 10 percent or more in state support during a fiscal year will be projected to not qualify as a TABOR-exempt enterprise.
NOTE 5: Other state support includes the estimated amount of \$15,465,812 from the Tobacco Litigation Settlement Moneys Health Education Fund, \$1,500,000 from the Marijuana Tax Cash fund to the Anschutz Medical Campus, as well as \$1,338,525 in appropriations for CU Colorado Springs.

The disqualification of an institution as a TABOR-exempt enterprise has several consequences. The State Controller adjusts the prior-year fiscal year spending limit (TABOR base) to ensure comparability between the TABOR base and current year nonexempt revenue. The TABOR base is used to calculate the limit on fiscal year spending and the amount required to be refunded or the amount of excess revenue to be retained. If a higher education institution does not qualify as a TABOR-exempt enterprise and it experiences a more rapid rate of growth in revenue than allowed under TABOR, the institution could contribute disproportionately to any required taxpayer refund, which historically has been paid from General Fund resources.

Other consequences resulting from the loss of TABOR-exempt enterprise status include:

- The accounting burden for the institution, as well as other state departments doing business with the institution, is increased because of the need to change the categories, often at the end of the year, for recording of revenues and expenses for TABOR purposes.
- The institution's sources of revenue available to pledge for the payment of principal, interest, and reserve requirements on revenue bonds decreases. In addition to other sources of revenue that may be used, Section 23-5-103(1), C.R.S., generally allows a higher education institution designated as a TABOR-exempt enterprise to pledge up to 100 percent of its tuition revenue for payment of bond debt and reserve requirements, with few restrictions. However, without TABOR-exempt enterprise status, an institution loses its ability to pledge a percentage of its tuition for such purpose at the time such bonds are issued.

COLLEGE OPPORTUNITY FUND STIPENDS AND FEE-FOR-SERVICE CONTRACT PURCHASES

The General Assembly passed Senate Bill 04-189 during the 2004 Legislative Session, which changed the process for funding postsecondary education. The bill established the College Opportunity Fund (COF) as a trust fund to provide financial assistance to eligible undergraduate college students through stipend payments and fee-for-service contracts for higher education institutions. For Fiscal Year 2017, the appropriation for the COF Program (including COF stipends for private institutions, as provided for under statute) and fee-for-service contracts was approximately \$647 million.

To obtain the stipend, an eligible undergraduate student must apply for the stipend and be admitted to a state or private participating institution of higher education in Colorado. Once this is accomplished, an institution requests that the Colorado student loan program make a stipend payment to the institution so the funds can be applied against the student's in-state tuition cost. Qualified students receive stipend payments on a credit-hour basis for undergraduate instruction up to a life-time limitation of 145 credit hours. However, if a student has already completed his or her baccalaureate degree under the COF, he or she may receive stipend payments for an additional 30 undergraduate credit hours. The COF stipend is currently \$75 per credit hour for public institutions.

Section 23-18-303, C.R.S., gives the Department of Higher Education the ability to enter into fee-for-service contracts with higher education governing boards to purchase services. Those contracts must include the institutional role and mission funding factors, and institutional funding performance factors. Institutional role and mission factors include selectivity, number of campuses, location, enrollment, support services, undergraduate and graduate programs, and remediation. Institutional funding factors include awards for degrees and certificates, retention, and up to four additional performance metrics as determined by the Colorado Commission on Higher Education.

Higher education institutions received approximately \$284 million for COF stipends and about \$363 million for fee-for-service contracts in Fiscal Year 2017.

The amounts reported by the Department of Higher Education for fee-for-service contracts and COF stipends for Fiscal Year 2017 are shown in EXHIBIT 1.3.

**EXHIBIT 1.3. HIGHER EDUCATION TABOR-EXEMPT ENTERPRISES
ACTUAL FEE-FOR-SERVICE CONTRACTS AND COLLEGE OPPORTUNITY FUND
(COF) STIPENDS
FISCAL YEAR 2017**

| | FEE-FOR-SERVICE TOTALS | COLLEGE OPPORTUNITY FUND STIPENDS | TOTAL |
|-----------------------------------------|---------------------------|-----------------------------------------|-----------------------|
| ADAMS STATE UNIVERSITY | \$ 11,545,523 | \$ 2,530,838 | \$ 14,076,361 |
| COLORADO COMMUNITY COLLEGE SYSTEM | 52,139,207 | 101,202,900 | 153,342,107 |
| COLORADO SCHOOL OF MINES | 14,705,988 | 5,933,063 | 20,639,051 |
| COLORADO STATE UNIVERSITY SYSTEM | 91,242,115 | 43,276,192 | 134,518,307 |
| FORT LEWIS COLLEGE | 8,078,150 | 3,403,050 | 11,481,200 |
| COLORADO MESA UNIVERSITY | 9,993,604 | 14,287,125 | 24,280,729 |
| METROPOLITAN STATE UNIVERSITY OF DENVER | 20,565,316 | 30,849,685 | 51,415,001 |
| UNIVERSITY OF COLORADO SYSTEM | 121,771,700 | 64,660,986 | 186,432,686 |
| UNIVERSITY OF NORTHERN COLORADO | 24,223,624 | 14,814,610 | 39,038,234 |
| WESTERN STATE COLORADO UNIVERSITY | 8,535,039 | 2,999,888 | 11,534,927 |
| TOTAL | \$ 362,800,266 | \$ 283,958,337 | \$ 646,758,603 |

SOURCE: Office of the State Auditor analysis of amounts for fee-for-service contracts is based on information provided by the Department of Higher Education.

For Fiscal Year 2018, the total appropriation for the COF Program and fee-for-service contracts is approximately \$664 million. The appropriation to higher education institutions including \$1.5 million to participating private institutions and \$291.3 million to state institutions, is approximately \$293 million for COF stipends and about \$373 million for fee-for-service contracts. Role and mission funding of \$142.1 million for Fiscal Year 2018, is determined by the Department of Higher Education according to the base funding formula, with consideration of the following factors: the Institution’s institutional mission, support services for Pell-eligible, first-generation, and underserved undergraduate students, weighted credit hours for graduate programs, remediation, and additional role and mission factors as determined by the Commission. Performance funding of \$109.9 million for Fiscal Year 2018, is determined by the Department of Higher Education according to the base funding formula, with consideration of the Institution’s student completion and retention statistics, and additional performance funding metrics supporting state policy goals as determined by the Commission.

The appropriation for fee-for-service contracts and COF stipends for Fiscal Year 2018 are shown in EXHIBIT 1.4.

**EXHIBIT 1.4. HIGHER EDUCATION TABOR-EXEMPT ENTERPRISES
APPROPRIATED FEE-FOR-SERVICE CONTRACTS AND COLLEGE OPPORTUNITY FUND (COF)
STIPENDS
FISCAL YEAR 2018**

| | ROLE AND MISSION FUNDING | PERFORMANCE FUNDING | SPECIALTY EDUCATION PROGRAM & SPECIAL BILLS | LIMITED PURPOSE FEE-FOR-SERVICE | FEE-FOR-SERVICE TOTALS | COLLEGE OPPORTUNITY FUND STIPENDS | TOTAL |
|-----------------------------------------|--------------------------|-----------------------|---------------------------------------------|---------------------------------|------------------------|-----------------------------------|-----------------------|
| ADAMS STATE UNIVERSITY | \$ 8,551,417 | \$ 2,879,383 | \$ - | \$ - | \$ 11,430,800 | \$ 2,829,163 | \$ 14,259,963 |
| COLORADO COMMUNITY COLLEGE SYSTEM | 26,268,712 | 23,202,869 | - | 161,960 | 49,633,541 | 104,075,673 | 153,709,214 |
| COLORADO SCHOOL OF MINES | 10,032,268 | 5,130,782 | \$ - | - | 15,163,050 | 6,321,656 | 21,484,706 |
| COLORADO STATE UNIVERSITY SYSTEM | 20,931,300 | 18,247,325 | 56,024,609 | - | 95,203,234 | 44,082,292 | 139,285,526 |
| FORT LEWIS COLLEGE | 5,279,409 | 2,576,796 | - | - | 7,856,205 | 3,928,733 | 11,784,938 |
| COLORADO MESA UNIVERSITY | 6,375,070 | 4,930,032 | - | - | 11,305,102 | 14,646,059 | 25,951,161 |
| METROPOLITAN STATE UNIVERSITY OF DENVER | 8,568,412 | 11,120,959 | - | - | 19,689,371 | 31,937,232 | 51,626,603 |
| UNIVERSITY OF COLORADO SYSTEM | 33,045,098 | 32,157,196 | 64,150,070 | 100,000 | 129,452,364 | 64,865,863 | 194,318,227 |
| UNIVERSITY OF NORTHERN COLORADO | 16,251,093 | 7,794,197 | - | 75,000 | 24,120,290 | 15,477,118 | 39,597,408 |
| WESTERN STATE COLORADO UNIVERSITY | 6,824,688 | 1,901,154 | - | - | 8,725,842 | 3,096,055 | 11,821,897 |
| TOTAL | \$142,127,467 | \$ 109,940,693 | \$ 120,174,679 | \$ 336,960 | \$ 372,579,799 | \$ 291,259,844 | \$ 663,839,645 |

SOURCE: Office of the State Auditor analysis of amounts for fee-for-service contracts is based on information provided by the Department of Higher Education.

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PLEASE REFER TO REPORT NUMBER 1746S WHEN REQUESTING THIS MEMORANDUM.