



# 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 the 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 [Section 2-3-101(3)(f), and Section 2-3-103(8), C.R.S.].

### 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

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- Fort Lewis College
- 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 2019, and their projected enterprise status for Fiscal Year 2020.

New to this year's determination is the addition of the Public Employees' Retirement Association (PERA) direct distribution required by Senate Bill 18-200 [Section 24-51-414(1), C.R.S.]. The legislation directed the State to provide \$225 million in direct support to PERA on an annual basis beginning in Fiscal Year 2019. The Office of the State Controller allocated the Fiscal Year 2019 payment as an expenditure to each department of the State, including \$25 million to the institutions of higher education. Since the total is paid directly by the State and the \$25 million of the total is for the higher education institutions, the allocation is considered state support for the purposes of calculating enterprise status.

## FINAL ENTERPRISE STATUS FOR FISCAL YEAR 2019

During Fiscal Year 2019, 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 and local support received by the higher education enterprises for Fiscal Year 2019. EXHIBIT 1.1 also shows that all 10 institutions received less than 10 percent of their total revenue from state and/or local sources 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 2019**

	TOTAL REVENUE	STATE SUPPORT GENERAL FUND APPROPRIATION (NOTE 1)	STATE ALLOCATION OF PERA DIRECT DISTRIBUTION (NOTE 2)	STATE SUPPORT CAPITAL APPROPRIATION USED (NOTE 3)	OTHER STATE AND LOCAL SUPPORT (NOTE 4)	TOTAL STATE AND LOCAL SUPPORT	TOTAL SUPPORT AS A PERCENTAGE OF TOTAL REVENUE
ADAMS STATE UNIVERSITY	\$ 58,369,442	\$ -	\$ 283,861	\$ 215,325	\$ 119,250	\$ 618,436	1.1%
COLORADO COMMUNITY COLLEGE SYSTEM	710,820,132	5,400,000	6,990,246	12,003,863	7,469,737	31,863,846	4.5%
COLORADO SCHOOL OF MINES	308,428,658	-	2,021,905	7,267,964	5,781,820	15,071,689	4.9%
COLORADO STATE UNIVERSITY SYSTEM	1,463,595,646	-	4,189,764	18,871,488	9,159,986	32,221,238	2.2%
FORT LEWIS COLLEGE	77,934,881	-	202,813	1,157,180	424,498	1,784,491	2.3%
COLORADO MESA UNIVERSITY	157,666,855	-	379,414	84,164	2,308,227 (NOTE 5)	2,771,805	1.8%
METROPOLITAN STATE UNIVERSITY OF DENVER	225,494,691	-	1,137,764	-	234,719 (NOTE 6)	1,372,483	0.6%
UNIVERSITY OF COLORADO SYSTEM	4,848,564,460	-	8,584,792	15,818,051	26,837,184 (NOTE 7)	51,240,027	1.1%
UNIVERSITY OF NORTHERN COLORADO	240,160,987	-	882,458	4,857,892	1,975,123	7,715,473	3.2%
WESTERN STATE COLORADO UNIVERSITY	69,206,596	-	150,456	1,466,947	1,875,140	3,492,543	5.0%

SOURCE: Office of the State Auditor analysis of institution-provided financial information.

NOTE 1: Appropriations of \$4,500,000 for Colorado First Customized Job Training, and \$900,000 for Occupational Education for CCCS.

NOTE 2: PERA distribution pursuant to Section 24-51-414(1), C.R.S. for Fiscal Year 2019 allocated to the higher education institutions by the Office of the State Controller.

NOTE 3: Capital funds used during Fiscal Year 2019 and may not equal capital funds appropriated for any one year.

NOTE 4: State support received from annual lease payments for capital projects financed by state Certificates of Participation, other state support, and local government support.

NOTE 5: Local government support, including funds from the City of Grand Junction and Mesa County pledged for debt service for Colorado Mesa University.

NOTE 6: Local government support, including funds from Denver Public Schools for summer camp and tutoring programs with Metropolitan State University of Denver.

NOTE 7: State support includes \$14,700,000 from the Tobacco Litigation Settlement Moneys Health Education Fund for the University of Colorado and \$500,000 in Marijuana Tax money to be used for marijuana research. Other state support also consists of \$7,434,188 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 2020

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 2020,

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 2020.

Because the state allocation for the PERA direct distribution has not yet been determined for Fiscal Year 2020, the exhibit includes estimated direct allocation amounts for each institution based on its Fiscal Year 2019 allocation.

**EXHIBIT 1.2. HIGHER EDUCATION TABOR-EXEMPT ENTERPRISE STATUS  
ESTIMATED REVENUES AND STATE AND LOCAL SUPPORT  
FISCAL YEAR 2020**

	TOTAL REVENUE	STATE SUPPORT GENERAL FUND APPROPRIATION (NOTE 1)	ESTIMATED STATE ALLOCATION OF PERA DIRECT DISTRIBUTION (NOTE 2)	STATE SUPPORT CAPITAL APPROPRIATION PROJECTED TO BE USED (NOTE 3)	OTHER STATE AND LOCAL SUPPORT (NOTE 4)	TOTAL STATE AND LOCAL SUPPORT	TOTAL SUPPORT AS A PERCENTAGE OF TOTAL REVENUE
ADAMS STATE UNIVERSITY	\$ 57,682,754	\$ -	\$ 284,000	\$ 3,942,795	\$ 119,250	\$ 4,346,045	7.5%
COLORADO COMMUNITY COLLEGE SYSTEM	746,360,893	5,462,309	6,990,000	26,433,634	7,456,012	46,341,955	6.2%
COLORADO SCHOOL OF MINES	325,807,885	-	\$2,022,000	4,632,500	5,935,985	12,590,485	3.9%
COLORADO STATE UNIVERSITY SYSTEM	1,660,688,742	-	4,300,000	18,898,725	25,806,011	49,004,736	3.0%
FORT LEWIS COLLEGE	83,679,660	-	202,000	4,405,153	534,923	5,142,076	6.1%
COLORADO MESA UNIVERSITY	164,269,403	-	379,000	1,473,361	2,137,155 (NOTE 5)	3,989,516	2.4%
METROPOLITAN STATE UNIVERSITY OF DENVER	215,734,251	-	1,138,000	-	141,151	1,279,151	0.6%
UNIVERSITY OF COLORADO SYSTEM	4,627,071,576	-	8,585,000	23,608,136	29,334,344 (NOTE 6)	61,527,480	1.3%
UNIVERSITY OF NORTHERN COLORADO	237,417,352	-	882,000	1,801,603	1,983,950	4,667,553	2.0%
WESTERN STATE COLORADO UNIVERSITY	66,158,497	-	150,000	3,388,423	1,797,991	5,336,414	8.1%

SOURCE: Office of the State Auditor analysis of Fiscal Year 2020 information provided by each higher education institution.

NOTE 1: Appropriations of \$4,500,000 for Colorado First Customized Job Training and \$962,309 for Occupational Education for CCCS.

NOTE 2: Estimated PERA direct distribution allocation pursuant to Section 24-51-414(1), C.R.S.

NOTE 3: Estimated capital funds to be used during Fiscal Year 2020, which may not equal capital funds appropriated for any one year.

NOTE 4: State support received from annual lease payments for capital projects financed by State Certificates of Participation, other state appropriations, and local government support.

NOTE 5: Local government support, including funds from the City of Grand Junction and Mesa County pledged for debt service for Colorado Mesa University.

NOTE 6: State support includes the estimated amount of \$15,007,913 from the Tobacco Litigation Settlement Moneys Health Education Fund to the Anschutz Medical Campus, \$3,600,000 from the Marijuana Tax Cash Fund to the Anschutz Medical Campus, and \$7,780,884 for Certificates of Participation related to the Anschutz Medical Campus.

The disqualification of an institution as a TABOR-exempt enterprise has several consequences. First, the State Controller adjusts the state prior fiscal year spending limit (TABOR base) by adding the institution's TABOR-exempt revenue back 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.

Additional 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 College Opportunity Fund (COF) was established by Senate Bill 04-189 [Section 23-18-101, C.R.S.] 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 2019, the appropriation for the COF Program (including COF stipends for private institutions, as provided for under statute) and fee-for-service contracts was approximately \$742.9 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 payment from the COF administrator at the Colorado Department of Higher Education (CDHE). CDHE then submits the request to CollegeAssist who then transfers the funds to the institution so that 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 lifetime 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 \$94 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 (Commission).

Higher education institutions received approximately \$318.4 million for COF stipends and about \$424.5 million for fee-for-service contracts in Fiscal Year 2019.

The amounts reported by the Department of Higher Education for fee-for-service contracts and COF stipends for Fiscal Year 2019 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 2019**

	FEE-FOR- SERVICE TOTALS	COLLEGE OPPORTUNITY FUND STIPENDS	TOTAL
ADAMS STATE UNIVERSITY	\$ 13,368,240	\$ 2,466,122	\$ 15,834,362
COLORADO COMMUNITY COLLEGE SYSTEM	58,591,757	113,393,329	171,985,086
COLORADO SCHOOL OF MINES	15,737,045	7,136,449	22,873,494
COLORADO STATE UNIVERSITY SYSTEM	108,350,359	46,507,714	154,858,073
FORT LEWIS COLLEGE	9,775,921	3,277,175	13,053,096
COLORADO MESA UNIVERSITY	13,620,369	15,853,824	29,474,193
METROPOLITAN STATE UNIVERSITY OF DENVER	23,651,660	34,692,323	58,343,983
UNIVERSITY OF COLORADO SYSTEM	144,106,283	75,140,250	219,246,533
UNIVERSITY OF NORTHERN COLORADO	26,606,112	16,561,615	43,167,727
WESTERN STATE COLORADO UNIVERSITY	10,702,340	3,341,009	14,043,349
<b>TOTAL</b>	<b>\$ 424,510,086</b>	<b>\$ 318,369,810</b>	<b>\$ 742,879,896</b>

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

For Fiscal Year 2020, the total amount appropriated in the Long Bill (Senate Bill 19-207) and other bills for state institutions for the COF program and fee-for-service contracts is approximately \$822.7 million. This appropriation comprises approximately \$356.2 million for COF stipends, and about \$466.5 million for fee-for-service contracts. Participating private institutions were appropriated approximately \$1.7 million for the COF program.

Institutions of higher education's role and mission fee-for-service funding of \$167.2 million for Fiscal Year 2020 is determined by the Commission according to the base funding formula, with consideration of the following factors: the 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 fee-for-service funding of \$145.5 million for Fiscal Year 2020 was determined by the Commission according to the base funding formula, with consideration of each institution's student completion and retention statistics, and additional performance funding metrics supporting state policy goals as determined by the Commission.

The appropriation for the state institutions of higher education by type of funding for fee-for-service contracts and COF stipends for Fiscal Year 2020 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 2020**

	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	\$ 10,428,887	\$ 3,889,952	\$ -	\$ -	\$ 14,318,839	\$ 2,961,418	\$ 17,280,257
COLORADO COMMUNITY COLLEGE SYSTEM	32,152,239	31,175,933	-	581,960	63,910,132	126,537,563	190,447,695
COLORADO SCHOOL OF MINES	11,046,959	6,459,843	-	-	17,506,802	7,864,463	25,371,265
COLORADO STATE UNIVERSITY SYSTEM	24,676,264	24,000,637	68,964,435	1,550,317	119,191,653	53,186,882	172,378,535
FORT LEWIS COLLEGE	6,968,656	3,250,205	-	-	10,218,861	3,917,576	14,136,437
COLORADO MESA UNIVERSITY	7,528,771	7,100,145	-	300,000	14,928,916	17,556,043	32,484,959
METROPOLITAN STATE UNIVERSITY OF DENVER	10,256,229	14,388,572	-	300,000	24,944,801	39,024,341	63,969,142
UNIVERSITY OF COLORADO SYSTEM	37,794,182	42,073,593	78,966,607	2,900,000	161,734,382	82,539,545	244,273,927
UNIVERSITY OF NORTHERN COLORADO	17,864,630	10,222,787	-	75,000	28,162,417	18,917,046	47,079,463
WESTERN STATE COLORADO UNIVERSITY	8,467,208	2,913,700	-	200,000	11,580,908	3,654,471	15,235,379
<b>TOTAL</b>	<b>\$ 167,184,025</b>	<b>\$ 145,475,367</b>	<b>\$ 147,931,042</b>	<b>\$ 5,907,277</b>	<b>\$ 466,497,711</b>	<b>\$ 356,159,348</b>	<b>\$ 822,657,059</b>
SOURCE: Office of the State Auditor analysis of amounts for fee-for-service contracts based on information provided by the Department of Higher Education.							

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