



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 2016, and their projected enterprise status for Fiscal Year 2017.

GRANT REVENUES

TABOR does not define what is meant by “grants” when calculating state support. Section 23-5-101.5(2)(b)(I), C.R.S., defines a grant as “any direct cash subsidy or other direct contribution of money from the state or any local government in Colorado which is not required to be repaid.”

FINAL ENTERPRISE STATUS FOR FISCAL YEAR 2016

During Fiscal Year 2016, 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 2016. EXHIBIT 1.1 also shows that eight 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 2016**

	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	\$ 56,573,214	\$ -	\$ 2,203,440	\$ -	\$ 2,203,440	3.9%
COLORADO COMMUNITY COLLEGE SYSTEM	659,690,676	5,400,000	23,138,237	1,149,146	29,687,383	4.5%
COLORADO SCHOOL OF MINES	258,118,488	-	10,044,366	3,090,768	13,135,134	5.1%
COLORADO STATE UNIVERSITY SYSTEM	1,205,300,776	-	21,975,104	689,225	22,664,329	1.9%
FORT LEWIS COLLEGE	94,393,515	-	19,406,074	127,772	19,533,846	20.7%
COLORADO MESA UNIVERSITY	145,083,226	-	10,658,078	1,174,817	11,832,895	8.2%
METROPOLITAN STATE UNIVERSITY OF DENVER	199,425,422	-	11,975,215	100,657	12,075,872	6.1%
UNIVERSITY OF COLORADO SYSTEM	3,796,763,504	-	24,860,160	27,210,160 (NOTE 5)	52,070,320	1.4%
UNIVERSITY OF NORTHERN COLORADO	212,260,423	-	2,380,995	638,825	3,019,820	1.4%
WESTERN STATE COLORADO UNIVERSITY	67,871,642	-	17,368,349	601,885	17,970,234	26.5%
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 2016 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 do not qualify as TABOR-exempt enterprises.						
NOTE 5: Included in other state support is \$12,428,440 from the Tobacco Litigation Settlement Moneys Health Education Fund for the University of Colorado. Other state support also consists of \$14,289,937 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 2017

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 2017, as reported by each higher education institution. Based on current projections, one institution—Western State Colorado University—is projected to exceed the 10 percent threshold for governmental support for Fiscal Year 2017 due to capital contributions and

annual lease payments for capital projects expected to be provided by the State. Additionally, it should be noted that two institutions, Adams State University and University of Northern Colorado, are projected to be slightly under the 10 percent threshold at approximately 9.9 percent. Final results could result in both institutions losing their enterprise status for Fiscal Year 2017 if they exceed 10 percent.

**EXHIBIT 1.2. HIGHER EDUCATION TABOR-EXEMPT ENTERPRISE STATUS
ESTIMATED 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	\$ 59,528,169	\$ -	\$ 5,883,530	\$ -	\$ 5,883,530	9.9%
COLORADO COMMUNITY COLLEGE SYSTEM	692,675,210	5,400,000	12,098,575	2,410,209	19,908,784	2.9%
COLORADO SCHOOL OF MINES	278,088,410	-	7,415,000	3,244,095	10,659,095	3.8%
COLORADO STATE UNIVERSITY SYSTEM	1,345,952,106	-	15,765,848	1,445,576	17,211,424	1.3%
FORT LEWIS COLLEGE	79,084,812	-	4,180,425	172,551	4,352,976	5.5%
COLORADO MESA UNIVERSITY	143,464,982	-	9,230,212	1,646,232	10,876,444	7.6%
METROPOLITAN STATE UNIVERSITY OF DENVER	201,230,691	-	6,001,709	100,656	6,102,365	3.0%
UNIVERSITY OF COLORADO SYSTEM	3,664,232,367	-	2,967,375	38,544,064 (NOTE 5)	41,511,439	1.1%
UNIVERSITY OF NORTHERN COLORADO	240,230,820	-	22,713,626	964,638	23,678,264	9.9%
WESTERN STATE COLORADO UNIVERSITY	62,199,719	-	8,543,683	1,262,387	9,806,070	15.8%

SOURCE: Office of the State Auditor analysis of Fiscal Year 2017 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 2017 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 \$15,325,373 from the Tobacco Litigation Settlement Moneys Health Education Fund, \$14,255,211 received from annual lease payments for capital project financed by state Certificates of Participation related to the Anschutz Medical Campus, as well as \$7,932,020 in appropriations for Cybersecurity 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 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 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 2016, the appropriation for the COF Program (including COF stipends for private institutions, as provided for under statute) and fee-for-service contracts was approximately \$648 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. SB 14-001 provided additional funding and increased the COF stipend to \$75 per credit hour for public institutions, which is the rate that was in place as of Fiscal Year 2016.

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 \$283 million for COF stipends and about \$363 million for fee-for-service contracts in Fiscal Year 2016.

The amounts reported by the higher education institutions in the audited financial statements for fee-for-service contracts and COF stipends for Fiscal Year 2016 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 2016			
	FEE-FOR-SERVICE TOTALS	COLLEGE OPPORTUNITY FUND STIPENDS	TOTAL
ADAMS STATE UNIVERSITY	\$11,400,000	\$2,800,000	\$14,200,000
COLORADO COMMUNITY COLLEGE SYSTEM	52,177,132	101,372,409	153,549,541
COLORADO SCHOOL OF MINES	14,390,000	6,157,000	20,547,000
COLORADO STATE UNIVERSITY SYSTEM	91,700,000	42,900,000	134,600,000
FORT LEWIS COLLEGE	7,995,735	3,826,687	11,822,422
COLORADO MESA UNIVERSITY	10,200,000	14,300,000	24,500,000
METROPOLITAN STATE UNIVERSITY OF DENVER	19,045,705	31,107,694	50,153,399
UNIVERSITY OF COLORADO SYSTEM	121,440,000	63,175,000	184,615,000
UNIVERSITY OF NORTHERN COLORADO	26,000,000	15,100,000	41,100,000
WESTERN STATE COLORADO UNIVERSITY	8,628,355	3,000,000	11,628,355
TOTAL	362,976,927	283,738,790	646,715,717
SOURCE: Office of the State Auditor analysis of amounts for fee-for-service contracts and COF stipends from the individual higher education institutions' audited financial statements.			

For Fiscal Year 2017, the appropriation for the COF Program and fee-for-service contracts is approximately \$648 million. The appropriation to higher education institutions is approximately \$291 million for COF stipends and about \$357 million for fee-for-service contracts. Out of the \$291 million COF stipends, participating private institutions is approximately \$1.4 million.

The appropriation for fee-for-service contracts and COF stipends for Fiscal Year 2017 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 2017						
	ROLE AND MISSION FUNDING	PERFORMANCE FUNDING	SPECIALTY EDUCATION PROGRAM & SPECIAL BILLS	FEE-FOR- SERVICE TOTALS	COLLEGE OPPORTUNITY FUND STIPENDS	TOTAL
	(NOTE 1)	(NOTE 2)			NOTE (3)	
ADAMS STATE UNIVERSITY	\$ 8,404,760	\$ 2,780,974	-	\$ 11,185,734	\$ 2,890,626	\$ 14,076,360
COLORADO COMMUNITY COLLEGE SYSTEM	26,497,606	20,197,308	161,960	46,856,874	106,473,273	153,330,147
COLORADO SCHOOL OF MINES	9,825,900	4,618,617	-	14,444,517	6,194,533	20,639,050
COLORADO STATE UNIVERSITY SYSTEM	20,539,486	17,116,734	53,814,371	91,470,591	43,047,716	134,518,307
FORT LEWIS COLLEGE	5,089,900	2,350,202	-	7,440,102	4,041,098	11,481,200
COLORADO MESA UNIVERSITY	6,174,370	4,400,204	-	10,574,574	13,706,155	24,280,729
METROPOLITAN STATE UNIVERSITY OF DENVER	8,639,543	10,526,676	-	19,166,219	32,248,782	51,415,001
UNIVERSITY OF COLORADO SYSTEM	32,269,082	29,214,143	62,696,921	124,180,146	62,352,540	186,532,686
UNIVERSITY OF NORTHERN COLORADO	16,089,052	7,508,304	75,000	23,672,356	15,440,878	39,113,234
WESTERN STATE COLORADO UNIVERSITY	6,666,047	1,901,604	-	8,567,651	2,967,276	11,534,927
TOTAL	140,195,746	100,614,766	116,748,252	357,558,764	289,362,877	646,921,641
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.						
NOTE 1: The Department of Higher Education shall determine the funding amount 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.						
NOTE 2: The Department of Higher Education shall determine the funding amount according to the base funding formula, with consideration of the following factors: the Institution's student completion and retention statistics, and additional performance funding metrics supporting state policy goals as determined by the Commission.						
NOTE 3: COF stipends are based on Long Bill appropriations.						

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PLEASE REFER TO REPORT NUMBER 1646S WHEN REQUESTING THIS MEMORANDUM.