



OFFICE OF THE STATE AUDITOR



We Set the Standard for Good Government

October 24, 2018

DIANNE E. RAY, CPA

STATE AUDITOR

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
- Colorado Mesa University
- Metropolitan State University of Denver

OFFICE OF THE STATE AUDITOR

1525 SHERMAN STREET

7TH FLOOR

DENVER, COLORADO

80203

303.869.2800

- 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 2018, and their projected enterprise status for Fiscal Year 2019.

FINAL ENTERPRISE STATUS FOR FISCAL YEAR 2018

During Fiscal Year 2018, 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 2018. EXHIBIT 1.1 also shows that all 10 institutions received less than 10 percent of their total revenue from the 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 2018**

	TOTAL REVENUE	STATE SUPPORT GENERAL FUND APPROPRIATION (NOTE 1)	STATE SUPPORT CAPITAL APPROPRIATION (NOTE 2)	OTHER STATE AND/OR LOCAL SUPPORT (NOTE 3)	TOTAL STATE AND LOCAL SUPPORT	TOTAL SUPPORT AS A PERCENTAGE OF TOTAL REVENUE
ADAMS STATE UNIVERSITY	\$ 54,557,157	\$ -	\$ 884,523	\$ -	\$ 884,523	1.6%
COLORADO COMMUNITY COLLEGE SYSTEM	661,818,090	5,400,000	8,409,990	6,823,202	20,633,192	3.1%
COLORADO SCHOOL OF MINES	277,225,458	-	1,870,198	6,667,981	8,538,179	3.1%
COLORADO STATE UNIVERSITY SYSTEM	1,480,891,517	-	65,854,969	1,916,243	67,771,212	4.6%
FORT LEWIS COLLEGE	73,692,253	-	203,982	222,059	426,041	0.6%
COLORADO MESA UNIVERSITY	146,597,717	-	175,745	1,920,269 (NOTE 4)	2,096,014	1.4%
METROPOLITAN STATE UNIVERSITY OF DENVER	206,578,989	-	-	141,151 (Note 5)	141,151	0.1%
UNIVERSITY OF COLORADO SYSTEM	4,571,195,138	-	3,445,552	23,290,208 (NOTE 6)	26,735,760	0.6%
UNIVERSITY OF NORTHERN COLORADO	252,581,227	-	22,227,857	1,849,937	24,077,794	9.5%
WESTERN STATE COLORADO UNIVERSITY	57,984,362	-	2,153,149	1,673,410	3,826,559	6.6%

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: Capital funds used during Fiscal Year 2018 and may not equal capital funds appropriated for any one year.

NOTE 3: State support received from annual lease payments for capital projects financed by state Certificates of Participation, other state support, and local government support, and funds from Denver Public Schools for summer camp and tutoring programs with Metropolitan State University of Denver.

NOTE 4: Local government support, including funds from the City of Grand Junction and Mesa County pledged for debt service for Colorado Mesa University.

Note 5: Local government support, including funds from Denver Public Schools for summer camp and tutoring programs with Metropolitan State University of Denver.

NOTE 6: State support includes \$15,465,812 from the Tobacco Litigation Settlement Moneys Health Education Fund for the University of Colorado and \$14,261,775 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 2019

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 2019, 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 2019.

EXHIBIT 1.2. HIGHER EDUCATION TABOR-EXEMPT ENTERPRISE STATUS ESTIMATED REVENUES AND STATE AND LOCAL SUPPORT FISCAL YEAR 2019						
	TOTAL REVENUE	STATE SUPPORT GENERAL FUND APPROPRIATION (NOTE 1)	STATE SUPPORT CAPITAL APPROPRIATION (NOTE 2)	OTHER STATE AND/OR LOCAL SUPPORT (NOTE 3)	TOTAL STATE AND LOCAL SUPPORT	TOTAL SUPPORT AS A PERCENTAGE OF TOTAL REVENUE
ADAMS STATE UNIVERSITY	\$ 53,071,210	\$ -	\$ 1,424,839	\$ -	\$ 1,424,839	2.7%
COLORADO COMMUNITY COLLEGE SYSTEM	694,908,994	5,400,000	16,743,652	7,014,473	29,158,125	4.2%
COLORADO SCHOOL OF MINES	306,605,924	-	4,099,839	6,492,539	10,592,378	3.5%
COLORADO STATE UNIVERSITY SYSTEM	1,602,893,292	-	22,491,058	2,030,961	24,522,019	1.5%
FORT LEWIS COLLEGE	76,138,702	-	3,915,415	165,154	4,080,569	5.4%
COLORADO MESA UNIVERSITY	154,602,709	-	3,042,676	1,991,770 (NOTE 4)	5,034,446	3.3%
METROPOLITAN STATE UNIVERSITY OF DENVER	214,596,252	-	-	141,151	141,151	0.1%
UNIVERSITY OF COLORADO SYSTEM	4,322,249,510	-	13,110,619	28,610,444 (NOTE 5)	41,721,063	1.0%
UNIVERSITY OF NORTHERN COLORADO	239,803,864	-	5,217,587	1,915,932	7,133,519	3.0%
WESTERN STATE COLORADO UNIVERSITY	61,529,514	-	3,553,277	1,773,591	5,326,868	8.7%
SOURCE: Office of the State Auditor analysis of Fiscal Year 2019 projections provided by each higher education institution.						
NOTE 1: Appropriations of \$4,500,000 for Colorado First Customized Job Training and \$900,000 for Occupational Education for CCCS.						
NOTE 2: Estimated capital funds to be used during Fiscal Year 2019 and may not equal capital funds appropriated for any one year.						
NOTE 3: 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: Local government support, including funds from the City of Grand Junction and Mesa County pledged for debt service for Colorado Mesa University.						
NOTE 5: State support includes the estimated amount of \$14,700,000 from the Tobacco Litigation Settlement Moneys Health Education Fund and \$1,250,000 from the Marijuana Tax Cash fund 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 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 2018, the appropriation for the COF Program

(including COF stipends for private institutions, as provided for under statute) and fee-for-service contracts was approximately \$665 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 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 \$83 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 \$292 million for COF stipends and about \$372 million for fee-for-service contracts in Fiscal Year 2018.

The amounts reported by the Department of Higher Education for fee-for-service contracts and COF stipends for Fiscal Year 2018 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 2018**

	FEE-FOR-SERVICE TOTALS	COLLEGE OPPORTUNITY FUND STIPENDS	TOTAL
ADAMS STATE UNIVERSITY	\$ 11,834,120	\$ 2,425,843	\$ 14,259,963
COLORADO COMMUNITY COLLEGE SYSTEM	50,056,105	103,653,110	153,709,215
COLORADO SCHOOL OF MINES	15,042,540	6,442,167	21,484,706
COLORADO STATE UNIVERSITY SYSTEM	95,717,933	43,567,594	139,285,526
FORT LEWIS COLLEGE	8,575,861	3,209,079	11,784,939
COLORADO MESA UNIVERSITY	11,570,148	14,381,013	25,951,161
METROPOLITAN STATE UNIVERSITY OF DENVER	19,659,856	31,966,747	51,626,603
UNIVERSITY OF COLORADO SYSTEM	126,706,046	67,612,181	194,318,227
UNIVERSITY OF NORTHERN COLORADO	24,101,530	15,495,879	39,579,408
WESTERN STATE COLORADO UNIVERSITY	8,828,341	2,993,556	11,821,897
TOTAL	\$ 372,092,480	\$ 291,747,169	\$ 663,839,649

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 2019, the total appropriation for the COF Program and fee-for-service contracts is approximately \$742.7 million. This includes appropriations for higher education in addition to the Long Bill (House Bill 18-1322), including Senate Bill 18-262 and Senate Bill 18-086. Senate Bill 18-262 provided additional funds to both the College Opportunity Fund and fee-for-service contracts in accordance with the goals of the Colorado Commission on Higher Education Master Plan. Senate Bill 18-086 provided additional funding to limited purpose fee-for-service contracts for the purpose of protecting state records. The appropriation to higher education institutions, including \$1.5 million for participating private institutions, and \$321.8 million for state institutions, is approximately \$323.3 million for COF stipends and about \$419.4 million for fee-for-service contracts.

Institutions of higher education's role and mission fee-for-service funding of \$156.7 million for Fiscal Year 2019 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 \$125.3 million for Fiscal Year 2019 is determined by the Commission 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 appropriations by type of funding for fee-for-service contracts and COF stipends for Fiscal Year 2019 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 2019							
	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	\$ 9,879,886	\$ 3,086,193	\$ -	\$ -	\$ 12,966,079	\$ 2,868,282	\$ 15,834,361
COLORADO COMMUNITY COLLEGE SYSTEM	29,419,081	27,494,385	-	161,960	57,075,426	114,696,620	171,772,046
COLORADO SCHOOL OF MINES	10,855,674	5,293,597	-	-	16,149,271	6,724,222	22,873,493
COLORADO STATE UNIVERSITY SYSTEM	22,818,477	20,147,099	61,646,145	1,200,000	105,811,721	49,046,350	154,858,071
FORT LEWIS COLLEGE	6,393,748	2,802,557	-	-	9,196,305	3,856,790	13,053,095
COLORADO MESA UNIVERSITY	7,059,544	5,922,575	-	300,000	13,282,119	16,192,075	29,474,194
METROPOLITAN STATE UNIVERSITY OF DENVER	9,591,323	13,490,789	-	300,000	23,382,112	34,961,871	58,343,983
UNIVERSITY OF COLORADO SYSTEM	35,351,891	36,337,663	70,633,015	2,900,000	145,222,569	73,282,450	218,505,019
UNIVERSITY OF NORTHERN COLORADO	17,201,152	8,426,684	-	75,000	25,702,836	16,789,890	42,492,726
WESTERN STATE COLORADO UNIVERSITY	8,140,176	2,303,299	-	200,000	10,643,475	3,399,873	14,043,348
TOTAL	156,710,952	\$ 125,304,841	\$ 132,279,160	\$ 5,136,960	\$ 419,431,913	\$ 321,818,423	\$ 741,250,336

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.



THE ELECTRONIC VERSION OF THIS MEMORANDUM IS AVAILABLE AT
WWW.COLORADO.GOV/AUDITOR

A COPY OF THE WRITTEN MEMORANDUM MAY BE OBTAINED BY CALLING 303.869.2800

PLEASE REFER TO REPORT NUMBER 1812S WHEN REQUESTING THIS MEMORANDUM.