Vouchers in Public Higher Education: The Colorado Approach to Funding and Access

A Project for the Western Interstate Commission for Higher Education

Kelly Fox
August 2006

Supported by a grant from the Ford Foundation
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- Alaska
- Arizona
- California
- Colorado
- Hawaii
- Idaho
- Montana
- Nevada
- New Mexico
- North Dakota
- Oregon
- South Dakota
- Utah
- Washington
- Wyoming

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- Assist policymakers in dealing with higher education and human resource issues through research and analysis.
- Foster cooperative planning, especially that which targets the sharing of resources.

This publication was prepared by the Policy Analysis and Research unit, which is involved in the research, analysis, and reporting of information on public policy issues of concern in the WICHE states.

This report is available free of charge online at www.wiche.edu/Policy/Ford/index.asp

For additional inquiries, please contact the Policy Analysis and Research unit at (303) 541-0254 or ebarber@wiche.edu.
Acknowlegements vi
The Changing State/Institutional Relationship 1
Tuition Initiatives Across the Country 3
The Colorado Approach 4
  Why Vouchers Were Enacted 4
  The Stipend Debate 7
Status of Implementation 8
Implications for Access 9
Transferability to Other States 10
Status Update 2006 11
Author Biography 12
Endnotes 12
References 12

Figures and Tables
Figure 1 State Funding for Higher Education per $1,000 of Personal Income, 1961 to 2004 2
Figure 2 Grants vs Loans, Percent Share of Total Aid, 1982-83 to 2004-05 2
Table 1 Recent State and Institutional Initiatives 5
Table 2 Evolution of the Voucher Concept in Colorado 6
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Today, public higher education confronts two pressing policy questions. First, how do institutions maintain high-quality standards in the face of declining state funding? And secondly, how do institutions, in the face of declining state support, ensure greater access to higher education?

Colorado has adopted legislation that attempts to address both of these critical issues. With the passage of SB 04-189, residents of Colorado began receiving a state stipend for their undergraduate education in fall 2005. The aim of this initiative is not just to develop the nation’s first voucher program, though. It also allows institutions to approximate their current appropriation by means of a contract with the Colorado Commission on Higher Education for specialty services like graduate education, rural education, and high-cost programs. In addition, institutions expect greater flexibility when it comes to state regulations and restrictions on tuition setting, thanks to the provision that allows colleges to be designated an “enterprise” (which provides institutions with an exemption from state fiscal spending limits). In Colorado, a state agency or institution that receives less than 10 percent of its revenue from the state is eligible for enterprise status. Once designated an enterprise, the revenues the agency or institution brings in are no longer subject to the state’s revenue limits under the Taxpayers Bill of Rights (TABOR).

In an effort to maintain accountability with this increased flexibility, the Colorado Commission on Higher Education has entered into performance agreements with each institutional governing board to ensure statewide performance goals are met. The supporters of this legislation expect that the state will experience a greater rate of participation in higher education through increased awareness of the support the state provides students.

The Colorado initiative is one of many new approaches that have emerged in the states in the past few years as new relationships between public colleges and universities and their states are explored. This paper begins with an examination of innovative initiatives being considered across the country. It then examines the political and economic climate in Colorado that preceded the passage of the SB 04-189, the status of implementation, and the anticipated impact on access.¹

The Changing State/Institutional Relationship

Historically, a compact has existed between higher education and the public. This compact allowed higher education the opportunity to pursue scholastic independence, including educating students and conducting research, while society benefited from having students learn from researchers on the cutting edge of their field. According to the College Board, this has translated in to societal benefits such as lower incarceration rates and increased civic participation among those who attend college. Individuals receive a direct benefit from the experience. The College Board estimates that in 2003, “the average worker with a four-year degree earned $49,900, 62 percent more than the $30,800 earned by the average worker with only a high school diploma.”¹ Furthermore, those with master’s degrees “earned almost twice as much, and those with professional degrees earned over three times as much per year as high school graduates.”

In the last 30 years, public higher education has seen its share of state general fund budgets decline. Chart 1 illustrates this decline of higher education funding per $1,000 of personal income at the national level and for Colorado.

Higher education is facing a new era of funding. The trend pointed downward as states grappled with competing demands from other state agencies. Thanks to economic struggles after 2001, this gradual decline accelerated, and states, as well as institutions, have been
forced to explore innovative funding mechanisms. Some institutions are offsetting reductions in state funding through increased tuition, bringing concerns about access and affordability to the fore at the state level.

Tuition rates have been growing at record rates across the nation, causing concern that access to higher education was being diminished at a time when citizens in our country need it most. According to the Advisory Committee on Student Financial Assistance, created by Congress in 2002, “over 400,000 students fully prepared to attend a four-year college were unable to do so, and 170,000 of these students will never attend college at all. Over this decade, 4.4 million of these high school graduates will not attend four-year colleges and 2.0 million will attend no college at all.” This represents a huge loss of human potential.

The Higher Education Act of 1965 emphasized the provision of grant aid at the federal level to ensure student access. Despite this historic recognition, there has been a shift in policy priorities, and today a shortfall in need-based grant aid exists. According to the College Board, today, the Pell Grant, a fundamental piece of need-based aid, covers “23 percent of the total charges at the average four-year public institution, but in 1980-81, it covered 35 percent of total charges.” As a result, more students must take out loans and participate in work-study programs (see Chart 2).
During this same time period, the nation experienced an historic increase in state contributions to need-based grant aid. According to the National Association of State Student and Grant Aid Programs, state spending on need-based aid has increased 50 percent over the last five years. Since 1994, state need-based grant aid has increased on average $1,747 dollars, while tuition at four-year institutions has increased $2,258. With tuition increasing at a faster rate than state aid and federal assistance changing from grants to loans, students are forced to bear a greater burden of the cost of their education.

As a result of declining state operating support and declining federal financial assistance to encourage higher education access, many institutions are examining new relationships with their state. At the heart of these proposals is the desire to maintain accountability to statewide goals – most notably access – while providing flexibility to institutions when it comes to such constraints of state government as tuition-increase limits, state procurement requirements, and the like.

**Tuition Initiatives Across the Country**

Since the 1970s, states have increasingly turned to performance measures to provide accountability to the citizens and policymakers. These indicators typically include a component measuring access to an institution.

Several states and institutions have taken these accountability measures a step farther recently to include a new relationship or compact between the institution and the state. In many instances, the agreements include a piece that frees institutions from some of the state’s bureaucracy while agreeing to provide a set of measures that ensures the public mission is upheld.

Maryland was the first state to pursue such a relationship. In 1992, St. Mary’s College became the first public institution of higher education to operate under a “charter college” arrangement. At the time, St. Mary’s struck an unusual bargain by agreeing to accept a yearly block grant and a ceiling on state funding in exchange for greater flexibility to manage its affairs, including gaining complete authority to set its tuition. The result has been more consistent funding levels. While the boom years of the late 1990s did not result in the high increases in state funding seen by other institutions in the state, they also did not experience the staggering decreases in funding sustained by others in the early 2000s.

In 2003, the Texas Legislature passed legislation allowing institutions the freedom to set their own tuition as long as a portion of the increase was dedicated to need-based financial aid. This flexibility was given in exchange for performance contracts, to ensure adequate progress toward statewide goals. However, during the 2005 legislative session, in response to large tuition increases, Texas reconsidered this tuition flexibility. While measures were introduced to revoke the authority given to institutions during the 2003 session, no changes were adopted at this time.

In February 2005, the Virginia legislature, adopted legislation that restructures its relationships with some higher education institutions. As a result, the state has established three levels of autonomy, depending on an institution’s financial strength. Based on the level of autonomy, varying degrees of reporting are expected; in exchange, institutions will be given more flexibility on capital-building projects and with the state’s procurement and personnel system.

California institutions have begun taking a closer look at their relationship with the state, as well. Karl Engelbach, former chief financial officer for the California Postsecondary
Education Commission, was involved in discussions two years ago to reform funding for higher education. Ideas that were considered ranged from a student stipend program to an institutional compact with the state. According to Engelbach, the notion of a state stipend did not catch on as a feasible alternative for California, but the notion of a compact did. As a result, the governor negotiated a compact with the systems that included increased autonomy for institutions in return for increased usage of performance measures. These performance measures, however, are still being debated, with the legislature working to establish its own set. Ultimately, the desire is to enter into a compact with the state that provides the breadth and depth in accountability measures that will satisfy both the executive and legislative branches.

During the 2005 session, Florida considered action that would remove most of the autonomy and flexibility colleges have had in the past by requiring the legislature to set tuition and authorize spending decisions at the state’s public colleges.

Table 1 provides additional examples highlighting some of the different proposals that attempt to redefine higher education’s relationship with the state.

The Colorado Approach
Taking this trend a step farther, during the 2004 legislative session, Colorado enacted one of the more controversial programs: student stipends. Under SB 04-189, institutions of higher education will no longer receive direct appropriations from the state. Instead their funding will come in two forms:

- Colorado resident undergraduate students, with a few exceptions, will receive a state stipend to offset their tuition costs. In 2005-06, the initial year, the stipend was $2,400 or $80 per credit hour.
- The remaining funding traditionally appropriated to governing boards will be appropriated to the Colorado Commission on Higher Education (CCHE), to be distributed to governing boards for fee-for-service contracts. These contracts are designed to provide funding for specific programs, such as graduate education, basic skills courses, and rural education.

In addition, this legislation provided two other key components: first, any institution participating in the stipend program must enter into a performance contract with CCHE; and second, institutions that qualify are granted enterprise status under TABOR. The performance contracts are intended to assure that statewide goals are being met.

Why Vouchers Were Enacted
To understand why vouchers were enacted in Colorado, it is important to understand the unique constraints on Colorado’s state budget. Statutory and constitutional restrictions and funding requirements have made it more difficult to maintain historical levels of funding for higher education.

Over the last decade, Colorado has adopted constitutional amendments that, when coupled with existing statutory and constitutional restrictions, place a heavy burden on the state budget. First, in 1992, Colorado voters adopted the Taxpayer’s Bill of Rights (TABOR), which limits the state’s revenue growth to the growth in population plus inflation. Under the enacting legislation, tuition revenue was included. If schools and colleges raised tuition at a faster rate than allowable, the excess revenue would be refunded the following year, using general fund monies. Second, in 2000, the voters approved Amendment 23, which provides
<table>
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<tr>
<th>State</th>
<th>Initiative</th>
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<tr>
<td>Arizona</td>
<td>University of Arizona, Arizona State University, and Northern Arizona University have been involved in a board of regents’ plan known as “Changing Direction,” designed to give institutions more autonomy in tuition setting and admissions standards while better differentiating their missions to meet state needs. A portion of the revenue from increased tuition must be dedicated to need-based financial aid.</td>
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<td>Illinois</td>
<td>“A Citizens’ Agenda for Illinois Higher Education” was put in place in 1998. This agenda outlines the needs of the state’s citizens and then set society-focused goals for higher education institutions. At the same time, the institutions were relieved of some cumbersome regulations. Each institution also reports on performance criteria that are specific to its mission. Additionally, a “truth in tuition” provision aims at stemming rising costs. The new law requires students be given a set tuition rate for four years.</td>
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<td>Miami University of Ohio</td>
<td>Miami University of Ohio’s board of trustees has approved a “tuition restructuring plan,” developing a system akin to vouchers. The plan would more than double the current cost of in-state tuition, bringing it to the same level as fall 2004 nonresident tuition. All Ohio students would then receive an Ohio Resident Scholarship that rebates $5,000 of the increase. A second scholarship, known as the Ohio Leader Scholarship, is awarded on a discretionary basis for financial need as well as for merit. The plan has been criticized for raising the sticker price so high that low-income students will feel priced out and for including merit aid instead of focusing on financial need.</td>
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<td>North Dakota</td>
<td>Legislation enacted in 2001 was described as providing flexibility and accountability. Under the legislation, institutions were given their appropriations as block grants and received authority to keep their tuition and private donations and grants. Institutions were later given control over setting tuition (within a set range). The bill also created new accountability reports designed to give lawmakers enough information to track the system’s performance.</td>
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<td>Oregon</td>
<td>The presidents of Oregon institutions have proposed a new relationship that would give them more autonomy. It calls for the state to provide funding equal to 80 percent of the average funding for a group of comparable state universities elsewhere, a sum that would rise to 90 percent in five years. The universities would also gain control over tuition and a set of “flexibility initiatives” that would allow them greater autonomy in their operations. In return, the universities would agree to increase enrollment from 78,000 to 100,000, double sponsored research funding, increase graduation rates, keep the cost to taxpayers below the national average, and set aside a portion of tuition revenues for financial aid for needy students.</td>
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<tr>
<td>Texas</td>
<td>Legislation to deregulate tuition was passed in 2003. The legislation mandates that 15 percent of tuition increases must go to financial aid and another 5 percent must be set aside for the state’s B-on-Time program (which provides zero-interest loans that are forgiven if a student finishes in four years while keeping a B average).</td>
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<tr>
<td>Washington</td>
<td>A pilot program allowing two institutions the ability to set their own undergraduate tuition started in 2005. Under this proposal, the institutions will negotiate contracts with the state that will set performance criteria. The institutions would receive autonomy over certain issues, including tuition setting. In addition, with demand for public education outstripping access by about 30,000 students, a voucherlike program is being considered. Also, the state is considering boosting financial aid to increase access to private higher education.</td>
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Source: Excerpted from “Policy for Higher Education in a Changing World – Overview of New Relationships with the State Nation.”

a mandatory threshold for annual increases for K-12 education, equaling inflation plus 1 percent. These competing revenue and spending initiatives restricted the state’s available funding, particularly for state agencies other than K-12.

Additionally, from fiscal years 2001 to 2004, the state experienced a large economic downturn, causing state general fund cuts for most state agency budgets, including higher education. Higher education sustained some of the largest cuts, with its appropriation...
decreasing $180 million over three years. Without reforms to TABOR and Amendment 23, the state faced a structural deficit requiring further reductions to the state’s budget. Moreover, higher education in Colorado, as in most states, competes for fewer flexible state dollars, due to increasing caseload demands from corrections, human services, and K-12.

As a result of other issues that came to the fore in the early years of the new century – such as the need to improve access and increase general fund support, as well as to provide adequate tuition levels for continuing operations – in 2001, the governor convened the Blue Ribbon Panel on Higher Education to make recommendations regarding the best mechanism to fund higher education, while ensuring that the state’s goals of increasing access and affordability were met. The panel concluded that Colorado should overhaul the state’s higher education’s funding mechanism. The panel also concluded that access to higher education could be increased if citizens were aware of the support provided to public higher education by the state. As a result, legislation was introduced during the 2003 legislative session that initiated the concept of funding higher education through vouchers.

While this legislation did not pass, the higher education community, the governor, and the General Assembly remained interested in finding a first step to ensure the future success of higher education in Colorado. The result was the passage of SB 04-189 a year later, which established the College Opportunity Fund (COF) and included four major components. (See Table 2 for details on the differences between the original proposal and the legislation that was enacted.) Specifically, SB 04-189:

- Provides stipend funding for eligible resident undergraduate students.
- Provides fee for service agreements between institutions and the Colorado Commission on Higher Education to allocate state support for graduate and specialty services to students.
- Allows governing boards to designate themselves as an enterprise (receiving less than 10 percent revenue from the state) under TABOR, thereby gaining management flexibility.
- Ensures public accountability through the development of governing board performance contracts with CCHE.

<table>
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<th>Original 2003 Recommendations</th>
<th>SB 04-189 – College Opportunity Fund Bill</th>
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<tr>
<td>• Creation of individual education savings accounts</td>
<td>• Creation of College-Opportunity Fund</td>
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<tr>
<td>• $4,000 stipends for undergraduate students for up to 140 credits</td>
<td>• $2,400 stipends for undergraduates for up to 145 credits; available to students at qualified private institutions – half the voucher for Pell-eligible students</td>
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<tr>
<td>• $8,000 stipends for graduate students</td>
<td>• No stipends for graduate students (graduate programs covered by fee-for-service contracts)</td>
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<tr>
<td>• Reduce community college tuition by 25 percent</td>
<td>• No recommendation for community college and four-year college tuition</td>
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<tr>
<td>• Increase four-year college tuition by 5 percent</td>
<td>• Required to set aside 20 percent of increased resident tuition for financial aid</td>
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<tr>
<td>• Provide role and mission grants for specified programs</td>
<td>• Provide fee-for-service contracts for specified programs</td>
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The Stipend Debate

While this legislation does not directly increase the amount of state general fund support that higher education will receive, proponents believe that The College Opportunity Fund is the first step to ensure the future success of higher education for three reasons: it puts the funding in the hands of the students and parents, thereby creating a disincentive for the state to cut funding; it frees colleges and universities from key state operating restrictions; and it improves access through increased awareness of state support.

Many of the proponents believe that a key component of access is the development of an understanding among underserved populations that higher education is available to those that have met an institution's admission criteria. With the stipend, the Colorado Commission on Higher Education is required to embark upon a marketing program to 8th graders. The campaign is intended to encourage students to sign up for the stipend early. Policymakers envisioned that introducing the stipend early will allow students to begin discussing and thinking about the various financing and grant options available. Every resident undergraduate student who participates in the program will see the state's support as a line on their tuition bill. Many believe this increased awareness and understanding of the amount of state support each student receives will help increase access.

Critics maintain that an understanding of the state's support, while a necessary step, will not improve access unless additional funding is provided. This program does not provide any additional money to institutions; in some cases institutions will receive less funding on a per student FTE basis than they have in the past. Critics point to a need for increased need-based financial aid and general operating support in order to improve access.

In addition, studies have shown that one of the largest deterrents to low-income access is the application process. This legislation has made the application process more difficult. Resident students are required to apply for the program, and each subsequent semester, students must authorize the use of their stipend. Critics argue that this cumbersome process will make an already daunting process seem impossible to some students.

One component that is not often discussed but which has a significant impact on students is the credit-hour limit. Students will be limited to 145 credit hours for the first undergraduate degree and an additional 30 for lifetime-learning undergraduate courses. There is a waiver process for students to allow additional credit hours. The first step is through the institution. After an institution has granted a one-time waiver, if a student needs additional credit hours to graduate, he or she must request a waiver from the commission. Proponents believe this piece will help to ensure students are graduating in a timely manner and are incurring fewer expenses to obtain a degree. Furthermore, proponents point to this policy as a savings to the state since the number of credit hours per student will be limited and the current funding appropriation will provide state support for more students. In response, some argue that this is an arbitrary limit that does not take into account students who are working towards a dual degree or who are in five-year bachelor's/master's programs, nor does it consider special circumstances that may require a student to take more credit hours to graduate. Moreover, critics say the need to continue educating students who are taking more than 145 credit hours as “unfunded students” will cause increased costs to institutions.

Another component of the debate surrounded accountability. Since access was one of the state’s most important goals in this legislation and institutions were given limited flexibility as “enterprises,” ensuring statewide goals were met was a primary concern. The legislation included a stipulation that required institutions, both public and participating privates, to enter into “performance contracts.” Prior to passage of the voucher legislation, performance
contracts were successfully implemented as a pilot project at the Colorado School of Mines. These contracts are meant to outline broad statewide goals and allow each institution the ability to set targets consistent with its role and mission. Advocates of the legislation believe this piece ensures that student access will improve over time. Others, while supportive of the increased flexibility and the concept of performance contracts, believe that without further financial investment in need-based aid, significant progress on access will be limited.

Overall, advocates have maintained that the state should focus its scarce resources on resident undergraduate education, regardless of whether the student is attending a public or private institution, and on ensuring all Colorado students who are eligible to attend college are allowed the opportunity. This legislation provides a necessary first step towards that goal. In addition, advocates maintain that the legislation supports not only statewide access goals but other accountability measures, through performance contracts – important as institutions become more independent. It also facilitates the timely graduation of students through the credit-hour limits.

Opponents maintain that a stipend-based system was not needed to increase student understanding of how much support the state provides them. Other, simpler options that would have achieved the same end include:

- Moving the state appropriation from a general operating appropriation to student financial aid. The financial aid system is already in place and would not require an additional level of administration. Students would see the support from the state in the form of a financial aid grant.
- Reporting the estimated amount of general fund support each institution receives per student FTE on the bill as an informational note. This would eliminate the need for developing a new funding mechanism and would provide the same marketing effect.

Both of these options, while they could be effective in other states, would not allow Colorado institutions to qualify as enterprises under TABOR and therefore would not offer the flexibility to raise tuition, based on market demands and needs. This was a critical component for the institutions that backed this legislation. Colorado is currently facing a structural deficit, and higher education remains a likely area for budget cuts. Without the necessary flexibility to raise tuition and remove some of the bureaucratic regulations, some worry that Colorado institutions would not be able to stay competitive nationally. Finally, those at public institutions worry that allowing qualifying private institutions to participate in the stipend program will accelerate the decline in state support for – and in the quality of – Colorado’s public institutions.

**Status of Implementation**

After its passage in May 2004, public higher education, the Colorado Commission on Higher Education, the College Access Network (CAN) – now known as the Colorado Student Loan Program, the state student loan office, and the governing boards worked diligently to implement the stipend program by the fall semester of 2005. CAN developed a database and began accepting applications for the program. The commission and CAN began marketing the program to 8th grade students and graduating seniors last winter. Colleges and universities market the program to new students and have submitted their first reconciliation invoice for the first semester under the new system to CAN.
Many operational issues are still being developed and decided. For instance:

- Historically, the state treasurer distributes funding monthly to most institutions. Under the stipend proposal, the tuition bill is typically due on the first day of class.
- Institutions must establish a waiver process for the 145 credit hours.
- The commission and institutions bear the burden of ensuring current students understand the stipend program and realize that it’s in their best interest to apply. Marketing the program and ensuring that every eligible student applies continue to be major efforts.
- Not only do institutions need to ensure all eligible students have applied, but students must affirmatively state their desire to use the stipend each semester.
- Every institution is undertaking the extensive information technology task of modifying bills to show the amount of state stipend received for each student. Compounding this task is the need to build flexibility so that the student is given credit for the full stipend regardless of whether the state has appropriated sufficient funding to the College Opportunity Fund to cover the cost of every student.
- Institutions are developing hotlines and help desks to assist students in navigating the new process.
- Institutions are faced with battling the perception that the stipend will reduce current tuition rates. At the Colorado School of Mines, the most frequently asked question is why the current tuition rate won’t be lowered by the amount of the stipend. There is a misperception that COF is new funding from the state for students. Combating this misperception may be the biggest challenge facing institutions.

While this program is a state stipend and students are essentially guaranteed the funds, it is not clear how the commission and the state will handle a shortfall in the fund if more students than anticipated participate. While it is not unusual under the current funding structure for institutions to admit and accept more students than expected during the appropriation process, the accounting of the funding is not reconciled to each individual student and therefore does not pose an accounting problem. Under this new mechanism, if the state is unable support all the students who attend, it is not clear how institutions should account for this discrepancy in their accounting records. The state does not want it to be recognized as bad debt, and at the same time the law prohibits the funding from appearing as institutional support instead of state support. This is one example of the administrative issues that need to be resolved.

In order to ensure the success of this program it is critical that students are aware of it and apply for it. The marketing of this new effort will be a huge component in its success and will require a large investment from the commission and institutions. Every effort is being taken to ensure that current and new students are aware of the change.

**Implications for Access**

A major component of this legislation for policymakers was the potential for increased access that the new program offered. The program is too new to determine exactly what the implications for access will be. Research shows that barriers to access are multidimensional and include many facets beyond an understanding of the actual cost of attending, such as:

- Academic preparation and requirements.
- Financial capability.
• Competing demands from families.
• Childcare.
• Being the first in their family to brave this new path.

As reported in the research article “In Their Own Voices: Conversations with College Students from Underrepresented Populations,” college is a foreign place for many and simply navigating the bureaucracy is daunting. In order to increase access, the stipend program must address this fact and must be multidimensional, including outreach and support programs, staff in the registrar’s and financial aid offices who are willing to lend extra support, and advisers who can help with the morass of decisions that must be made and forms that must be filled out.

It is not clear that the voucher program will contribute significantly to increased participation. The Commission on Higher Education has taken steps to increase high school student awareness of higher education and their ability to attend. A large marketing effort is underway to educate the public. The commission has indicated a commitment to work with high school counselors to ensure students are aware of the stipend program. Furthermore, as the law requires, the commission has initiated an education process for students, beginning with those in the 8th grade.

While it is too early to determine the program’s impact, the commission’s actions may provide a piece of improved access. Many believe that the key will be the ability of institutions, both K-12 and higher education, to help guide and support students through the maze of forms and to find ways to mitigate the external factors that impede a student’s ability to attend college.

Other access questions that need to be examined over time to determine if vouchers have helped to improve access include:

• Have vouchers brought more low-income students to higher education?
• Have vouchers encouraged low-income students to attend two-year institutions because they’re cheaper? If so, will they go on for a bachelor’s degree?

Transferability to Other States

Many states are facing the same issues around higher education that Colorado confronts – declining state support and a need to improve access to low-income populations. What makes Colorado unique, however, are the statewide revenue and expenditure limits and required funding levels adopted by the citizens for K-12. These competing laws have created a structural deficit that has accelerated the decline of funding for public higher education.

Colorado has a unique provision in TABOR, which allows state entities that receive less than 10 percent of their operating expenditures from the state to be designated an enterprise. With this designation, any cash revenue generated by the state entity does not count against the state’s overall revenue limit. This uncommon classification provided Colorado with an impetus for looking at funding differently than other states might.

Creating a funding mechanism (i.e., student stipends and fee-for-service contracts) that removes higher education’s revenue from the state’s revenue base provides a benefit not only to the institutions but to the state. Before SB 04-189, tuition revenue was counted as state revenue for purposes of TABOR. If the state collected more revenue than TABOR allowed, any excess revenue was refunded to the citizens of Colorado, using the state general fund.
Consequently, if tuition revenues are growing faster than state revenues, because of enrollment or mandated cost increases, the excess revenue had to be refunded to the citizens of Colorado. As an enterprise, a higher education institution would have its revenues removed from the state’s TABOR revenue base and therefore remove the need to artificially restrict tuition growth.

Immediately preceding this legislation, as a result of declining revenues, Colorado was forced to slash funding for many state programs: higher education was cut by almost 25 percent. Those cuts, along with the pressure on the state’s general fund budget and the inability of institutions to increase tuition revenue, challenged Colorado to find a new way to finance higher education, one that would shift funding to a state grant given to students. The principles surrounding the legislation are applicable to any state looking to revisit its funding policies. Some of those principles include:

- Market the availability of state financial aid resources to students.
- Market the current level of state support to students.
- Begin interacting with students in the 8th grade about higher education and the opportunities available to them.
- Develop statewide goals and determine how each institution’s unique role and mission can support the goals.
- Enter into performance agreements with institutions to ensure statewide goals are met.
- Allow institutions more flexibility from state regulations and restrictions to more fully develop programs and policies that support all students and encourage access.

Without similar pressures on a state’s general fund and limitations on its institutions’ ability to increase tuition revenue, it is unclear whether this program would have the desired impact. In Colorado, more time is needed to determine if this program addresses the critical access issues facing higher education. In the short term, though, it does provide Colorado with additional flexibility in its funding sources.

**Status Update 2006**

The fall of 2005 marked the first semester of this new program. The school year began with considerable confusion. Many students had applied for the new program but had not yet authorized individual schools to receive the money on their behalf. Most institutions embarked upon an individual notification plan to ensure all eligible students had both applied to CAN and authorized the institution to receive the money on their behalf. Final numbers for all institutions for the academic year are not yet available.

Institutions submitted their initial invoice file to CAN in September and October. The next big hurdle for institutions will be submitting the reconciliation file for the semester that adjusts for any changes that happened during the semester.

As we look to the next legislative session, the schools do not expect any major changes to the program. In another couple of years we will be able to begin evaluating the effectiveness of this program.
Kelly Fox is director of policy, planning, and analysis for the Colorado School of Mines. She holds a B.A. from the University of Nebraska and an M.P.A. from the University of Colorado at Denver. Prior to working at the Colorado School of Mines, she was the associate budget director for the University of Colorado System Office, and she worked for the State of Colorado’s executive branch as a policy and budget analyst for higher education.


3. Jamie E. Scurry, “In Their Own Voices: Conversation with College Students from Underrepresented Populations” (Providence, RI: The Futures Project, June 2004).


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