Is it a Shell Game?

Colorado's controversial new way of handing out its higher education money

By Susan C. Thomson
Denver, Colorado

ASK YOUR TYPICAL Colorado public college or university students about the vouchers that are supposedly helping them pay for their education, and their brows furrow in puzzlement. Ask them about their stipends, and some of them show glimmers of awareness. But mention College Opportunity Fund, and most of their faces brighten in recognition.

COF (pronounced "cough"), Colorado's roundabout way of funding higher education, now in its second year, has caught students' attention, seeped into their vernacular and become part of their routine.

Vouchers, stipends and COF are three different terms used to describe this payment system, the first—and so far only—one of its kind in the nation. All three terms are imprecise, the first two erroneously suggesting something valuable, portable and negotiable, like checks, the latter open to the mistaken interpretation that students are receiving cash they did not get before. Truth is, rather than getting anything extra, students have merely become conduits for some of the money the state used to send straight to its community college system and its public four-year colleges and universities.

The Colorado Commission on Higher Education, however, persists in implying some sort of state benevolence, referring on one of its websites to "taxpayer-funded" instruments that students "bring with them" to college. Another Commission website goes so far as to proclaim prominently: "In-state undergraduates: The State of Colorado is investing in your education. Money has been put aside for your tuition. Apply now to receive this new benefit."

Online and in presentations at the state's secondary schools, the Commission is marketing the College Opportunity Fund, encouraging students as young as eighth graders to sign up. As of late last year, 350,000 had done so, according to Jenna Langer, the commission's interim executive at the time.

Nicole Ebsen got the message and put her name on the line two years ago when she was a junior at Greeley West High School. Now a freshman at the University of Northern Colorado, in Greeley, she is among those who perceive that the COF is saving her money. "I can see it online when I pay my bill," she said. "It shows a total, and it shows a credit for the COF stipend."

Given the complexities and the confusion about its name, it is little wonder that most students profess not to understand the COF entirely. Most can at least tell you, though, that it adds up to maybe $1,000 or so, and that—at the click of a computer mouse—they can electronically deduct from their bills when they register for a semester of classes. Hey, it's "free money," some say gleefully.

Hee Yeon Day, a sophomore at Colorado State University, is among the minority of pooh-poohers. "Some people think they're getting extra money from the state but they're not," she said.

Few students can elaborate the point better than Aaron "Jack" Wiley. As a political science major and president of the Student Government Assembly at Metropolitan State College of Denver, he has studied the political process that brought this new funding wrinkle about. It's "a gimmick," he said, just a way to get around Colorado's budget limits and keep the state's higher education system afloat.

Eric Lars Bakke, Black Star, for CrossTalk

Frank Waterous, of the Bell Policy Center, in Denver, thinks the new higher education funding plan is simply budgetary sleight-of-hand.

In other words, it's just so much budgetary sleight of hand. And this is not merely students' chronic, sometimes uninformed, skepticism talking. Others with more detached perspectives describe this whole thing in even more negative terms:

- "A money laundry." That's what John Straayer, a professor of political science at Colorado State University calls it.
- "A different way of packaging and distributing the money…an elaborate process to do things the same way by calling it something different." That summation comes from Frank Waterous, senior policy analyst for education at the Bell Policy Center, a Denver foundation.
- "A huge shell game." That's the considered opinion of Spiros Protopsaltis, Waterous' predecessor at the Bell Center and now a doctoral candidate at the University of Colorado's School of Public Affairs in Denver, who is writing his dissertation on how Colorado came to this new way of handing out its higher education money.

Colorado's "College Opportunity Fund," according to Colorado State University political science professor John Straayer, is "a money laundry."

The story begins in 1992, when state voters passed the Taxpayers Bill of Rights (TABOR), an amendment to the state constitution that limited the annual growth of state spending to the increase in the Consumer Price Index, adjusted for state population change. By 2001-02, considering its population and per-capita income, Colorado had dropped into the bottom ten states in its financing effort for public colleges and universities in the annual rankings of the Center

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Aaron Wiley, student body president at the Metropolitan State College of Denver, called the new plan "a gimmick."

for the Study of Education Policy at Illinois State University.

By then, voters had delivered yet another punch in the form of Amendment 23, passed in 2000, which required a basic level of state funding for public elementary and secondary education, plus annual increases. No sooner did public schooling become another mandate, like Medicaid, than the recession took hold, driving available state revenue down. And so, said Hank Brown, president of the three-campus University of Colorado system, "The state was left with no option but to take all of the cuts out of higher education," its largest pot of discretionary cash.

Come 2003-04, after back-to-back annual cuts of nine percent and 14 percent, the state was supporting its public colleges and universities with roughly the same amount of money as it had eight years earlier—for an enrollment that meanwhile had increased 19 percent. A year later, higher education's share of the state's budget had shrunk to ten percent from 20 percent in 1990.

Colorado higher education officials describe this as a period of severe retrenchment. They coped only by increasing class sizes, cutting academic offerings, curtailing faculty and staff hiring and raises, covering more classes with part-time teachers, and deferring maintenance. "Our physical plant was left to rot in the gorgeous Colorado sun," lamented professor Straayer of Colorado State.

Then-Governor Bill Owens responded to the crisis in mid-2001 by appointing a "blue ribbon" panel of legislators, citizens and representatives of higher education to rethink the state's approach to higher education funding.

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A year and a half later the panel came forth with a proposal to fund students instead of institutions. Doing that, the group contended, would "help to encourage increased access for students from the lowest income levels and would increase higher education participation for all students." This market-like approach "would lead to greater responsiveness by all institutions to students' needs, and would increase flexibility to allow for world-class institutions in this state."

Specifically, the panel proposed a student "stipend" that would be worth $133 per credit hour for an in-state undergraduate and $267 per credit hour for certain graduate students.

Budgeters bought the student-funding concept in principle, if not those particulars. They tossed out the old TABOR-limited system of a single lump-sum appropriation for each of the public institutions and replaced it, for starters, with a new TABOR-free approach built around a fixed amount of compensation for every student credit hour. The planners were, however, considerably less generous than the panel envisioned, leaving graduate students out of the plan and pegging the credit-hour amount at $80, not $133, for undergraduates, no matter where they enrolled.

This was the first of several catches. At $80 per undergraduate hour, Metropolitan State College of Denver would receive roughly the same amount of state money it was getting already. All of the other campuses would come up with less than their existing funding, the gaps ranging anywhere from 16 percent for the Colorado Community College System to 74 percent for Adams State College. The University of Colorado system, the big gorilla in state funding, would wind up with $84 million less than the $150 million it was getting already from the state.

Obviously, that wouldn't fly. So the solution became a supplementary stream of income called "fee-for-service" that technically made the institutions contractors and supposedly paid them according to their various contributions to the state. Except, said Stephen M. Jordan, Metropolitan State's president, "The fee-for-service was not set up to accomplish any public political goal. It simply became a filler to make everybody whole."

When the filling was done, between fee-for-service and stipends, Colorado's higher education outlay for 2005-06, the new plan's first year, was calculated to come out to exactly what it had been under the old revenue scheme of the preceding year. And each institution was reckoned to get exactly the same share—no less but no more either, with no provision for inflation.

To ease their continuing financial bind, the schools seized the one financial bone the new deal had thrown them: Unlike the old, it allowed them to raise tuition without having to count it against the TABOR limits.

When students first signed up for classes in the fall of 2005 under the new system, they were in for a shock or two. If they thought the stipend money was going to be theirs to spend, they found themselves clicking it away, merely authorizing the state to pay their schools money it used to pay them directly. What's more, students found themselves, between higher fees and tuition, out of pocket anywhere from six percent at Metro State to 24 percent at the University of Colorado at Boulder, over and above what they had paid the year before.

So, instead of lowering the cost to students, as had been promised or at least implied, the new scheme ended up costing them more that first year. Nor have the "stipends" spared them or provided any relief from smaller tuition increases this year. "I've seen both systems," said Andrew Aitchison, a student leader at CU-Boulder. "I don't see that [the COF] made any difference." College just keeps costing more money, students say with shrugs of resignation.

The colleges and universities took pains to inform students about the change a semester or more ahead of time, holding meetings, sending electronic and other mailings, developing brochures about the COF and hiring additional staff to explain it to them in person. The information effort continues with campus websites that detail the COF and avoid overselling it. As Colorado State frankly tells students, one of its purposes was "to heighten awareness that state tax dollars are used to offset the costs of undergraduate education."

Hector Hernandez, a senior at CU-Boulder, said the COF has done that for him. He is impressed—unfavorably. "There are a lot of other states that pay a lot more," he said. He mentioned Georgia, which pays full tuition at any state college or university for any state resident who graduates from a state high school with a B or better average.

As for its advocates' claim that the COF would increase student access, Protopsaltis asks how. In fact, according to his calculations, college participation by low-income students has decreased in Colorado since this went into effect. As for its proper name, Protopsaltis insists on calling this a "voucher system." "That's what it is," he said, because it is also available to the state's private nonprofit colleges that are not, according to the law, "pervasively sectarian." By signing up, they can claim for their Pell grant-eligible students half the credit-hour amount that goes to the public campuses.

So far Regis University and Denver University are taking part, and Colorado College has been approved to do so. The inclusion of the private schools is "a foot in the door… that signals a major change in higher education in the state," Protopsaltis said.

Colorado makes the COF payments up to a total of 145 undergraduate credit hours per student. Beyond that, students must pay the COF amount themselves. Jordan said that students have become aware of that limit and are now being "a lot more careful about the choice of the credits they take." Newly this year, basic-skills, or college-prep, courses taught at community colleges are exempt from the cap. And undergraduate students in fields like nursing and dental hygiene at the University of Colorado's Health Sciences Center in Denver are eligible for the COF for the first time this year.

Last year, an unknown number of eligible students statewide either didn't get the word or said, in effect, "no thanks" to the COF. Jordan says the holdouts included some students whose employers were paying for their education. Others spurned what they perceived as needless government handouts, said Nancy McCallin, president of the Colorado Community College system. Still, given all the administrative work that went into informing students about the new system and installing new computer software to accommodate it, she said it would take "a significant amount of work" to return to the old pre-COF days.

No college administrators are publicly advocating doing anything of the kind, though none seem entirely satisfied with what they and the state budget refer to as "stipends." The prevailing attitude is that this new way of collecting state money is here to stay, something they must learn to live with but that, as a work in progress, is subject to fixing more to their liking over time. Tying some state support to students has introduced an element of fiscal uncertainty that was not there before, McCallin said. "You live and die now by your enrollment numbers." Still, she said she's holding off on making any suggestions for improvement until this second year of the experiment has ended.

Officials of research universities, meanwhile, are not at all reticent about expressing their special beef—that the state is failing now to adequately reward them for their higher-cost programs. As Boulder campus president Hank Brown pointed out, "Theoretically the stipend is for undergraduate programs, and an equal amount no matter where the student goes." Theoretically, then, a fee-for-service funding stream would cover the cost of graduate and other high-cost programs, such as the University of Colorado's medical school in Denver, the only one in the state. But Brown said it doesn't begin to do so.

By 2002, Colorado had dropped into the bottom ten states in its financing effort for public colleges and universities.

Nor, said Colorado State President Larry Penley, does fee-for-service take adequate measure of his school's relatively costly extension service, veterinary school, and undergraduate and graduate programs in science and technology. He worries that the result is an incentive for all of the state's colleges and universities "to offer more low-cost programs because there's no variation in the amount of revenue you get."

As solutions, Penley suggests extending stipends to graduate students and replacing the one-size-fits-all undergraduate payments with variable amounts tied to the cost of students' academic programs. Some have suggested tying the stipends to students' financial need. More common are calls to increase the dollar amount. Frank Waterous of the Bell Policy Center said he'd like to see the stipend rise to at least $100 per credit hour next year.

Jordan proposes raising it as much as it takes to make it a true entitlement and force his and all of the other state schools to compete more vigorously for students. As things stand now, he said, "We're caught between two funding systems…I don't think it serves the state to be in this mixed model."

In the first year, when the model had only been in effect for 11 months, the state divided its higher-education funding almost exactly down the middle—51 percent to stipends and 49 percent to fee-for-service. Estimates for the current 12-month year show stipends rising to 55 percent of the state's higher education spending (the result of that extra month), growth in the number of eligible students, and a $6 increase in the stipend, or COF, rate—to $86 per credit hour.

The schools have Colorado voters to thank for that extra $6. In their fondness for government by ballot box, voters went to the polls once again in November 2005, and produced an outcome that belied their tight-fisted image. They passed Referendum C, which lifted for five years the state spending limits they had approved in the TABOR amendment 13 years earlier.

Eric Lars Bakke, Black Star, for CrossTalk

Spiros Protopsaltis, of the Bell Policy Center, thinks the plan represents "a foot in the door" for Colorado private colleges and universities to claim state and federal money.

As a result, the state has been legally free since early 2006 to spend some of the surplus revenue—now running ahead of estimates—that otherwise it would have had to return to taxpayers. As a result of the passage of Referendum C, the state's public colleges and universities have been spared yet another debilitating budget cut, and they stand to realize, together, an extra $80 million or so in state funding this fiscal and academic year, about 13.9 percent more than last year, according to the Center for the Study of Education Policy.

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All of the institutions are collecting more stipend money as well as more state money altogether this year, but nobody is claiming it is enough. For the University of Colorado system, the extra cash has provided little more than cost-of-living adjustments, according to Brown. "It has stopped the bleeding, but it hasn't restored the limb that has been cut off," he said.

The issue of how best to divvy up this financial pie does not deal with the problem that Brown and other college officials see as the biggest higher education funding issue of all—the small size of the pie.

Support for that view comes from the Boulder-based National Center for Higher Education Management Systems, which in a recent study for the Colorado Commission on Higher Education found every one of the state's public colleges and universities deficient in state support when compared with its peer schools nationwide.

Based on NCHEMS' work, the Commission has estimated that Colorado would need to pump $832 million more a year—more than double its current level of support—into higher education just to bring all of its campuses up to the national average. For starters, the Commission has put in a 2007-08 budget request for an extra $106 million, with $10 million of that to go to stipends. Before leaving office, Governor Owens asked for a more realistic boost of $50 million, including the $10 million for stipends. Either way, funding would tilt toward fee-for-service in the third year of the new system.

"Some people think they're getting extra money from the state, but they're not," said Colorado State sophomore Hee Yeon Day.

Jordan, while preferring stipends, is hopeful, believing that Colorado has "turned the corner in people's understanding of the importance of higher education."

Colorado State's Straayer takes heart from what he senses is a new and warmer climate for higher education, partly reflected in Colorado's recent dramatic turn from red state to blue. Democrats captured both houses of the state legislature in 2004, and Democrat Bill Ritter, the state's new governor, finished what Straayer calls a "hat trick" for his party by winning the state's top office by a solid margin in November. Circumstances add up to what Straayer foresees as "an effort to rebuild the fiscal foundation for higher education."

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Stephen M. Jordan, president of Metropolitan State College of Denver, thinks the new funding approach has "turned the corner in people's understanding of the importance of higher education."

Governor Ritter has talked that talk. On his campaign website, he called for "doubling the current production of technical certificates and college degrees over the next ten years," and he pledged to restore higher education funding, increase state support, and "salvage" the community college system, which he described as so financially devastated that ten of its 13 campuses had been at risk of closing. However, other than briefly proposing that the College Opportunity Fund be extended to college courses taken by high school students, Ritter's website has nothing to say about the funding system.

Ritter also spoke in the same generally positive vein about higher education in a pre-election interview with *ColoradoBiz* magazine. "We need to figure out how to stabilize it going forward," he said. "Higher education for us will be a priority, and our goal is going to be to try to get it to the national average in (per-student) spending."

From Hank Brown's perspective, Colorado's colleges and universities share with the politicians the onus of reaching that goal. "We haven't done as good a job as we should have in making people understand the importance of higher education," he said. "We have to reach out to the community and involve them in what we're doing…We've done a decent job with the legislature; where we've fallen short is with the people who elect the legislators."

Ultimately, in a state with a history of voters taking legislative matters into their own hands, the people will decide. They're the ones who approved Referendum C, loosening the state purse strings, but for only five years, making for what Waterous said is just "a temporary timeout," good only until 2011. What happens then "is a discussion we need to start soon to know what the options are," he added. Clearly, without a statewide vote to extend Referendum C or enact some other measure to keep TABOR at bay, the old spending limits will come back in full force and shut off the money flow. ◆

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