

The Colorado voucher system: will it help or hurt public higher education?

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In 2005, Colorado lawmakers radically changed the state's higher education funding system. Until this point Colorado, like other states, had supported higher education by appropriating operating revenues to the institutions and providing some financial aid to low-income students. But in 2005, instead of giving the state's general funds for undergraduate instruction to institutions, the lawmakers directed them instead to all resident undergraduate students by means of stipends. To get the operating money that they used to receive directly from the state, institutions will now have to attract these newly flush "customers."

Is this the version of the privatization of public higher education apt to be imitated by other states, or is it a result of circumstances that are unlikely to be replicated elsewhere?

The challenges Colorado faces are not unique. At the turn of the millennium, not only states but nations are grappling with how to fund the expanded postsecondary education systems that are necessary if they hope to compete in the global knowledge economy. Britain's Tony Blair, for example, put his government on the line in order to increase both the funding for and expansion of tertiary educational opportunity. One way to increase a state's total investment in higher education, given finite state resources, is to leverage those funds with another source of money--the students. In an imitation of the American model, Blair's "top-up fees" significantly increased tuition. But this strategy is politically risky: even with his party's overwhelming majority in the House of Commons, only five votes separated victory from what could have been the end of Blair's stay in Downing Street. Other countries face similar

problems as they attempt to increase the percentage of their population's participation in higher education.

The United States too must deal with global competition, making increased access to higher education a major policy goal in many states. But given the structural deficits in state tax systems, it seems clear that policymakers will have trouble affording the rising costs of an expanding higher education system. And they can allow tuitions to rise only so far to compensate for the shortfall before they risk voter rebellion. Thus, they are trying to devise new funding models.

Colorado's "vouchers" or (the preferred term) "stipends" to students are an attempt at such a new system. Is this strategy an anomaly or one that could be adopted elsewhere? While Colorado is constrained by an unusual state tax policy, the zeitgeist of less government, competition, and free markets, as well as the perception that higher education is more a private benefit than a public good, dominate the politics of many other states. Colorado's institutions also are in a familiar position--forced to recognize that unless the current state financing system is overhauled, their ability to thrive, or even survive, will be in jeopardy. It was the convergence of these political and institutional perceptions that allowed two very different entities in the state, higher education and state government, to work in harmony as the voucher system was developed--a harmony that may or may not be possible elsewhere or survive the vicissitudes of implementation.

COLORADO: WELL-EDUCATED, RICH, AND BECOMING MORE DIVERSE

Colorado's new approach to higher education reform is in part a response to the state's demographic trends, both longstanding and new. Colorado has historically been a well-educated state. Since at least 1940, the state has greatly exceeded the nation in its percentage of adults with college degrees, in some decades by as much as 40 percent above the national average. The Census Bureau's educational attainment statistics for the past decade place Colorado second only to Massachusetts in the percentage of its adult population with a bachelor's degree or more.

Colorado is also one of the wealthiest states as measured by per-capita personal income, having jumped from 18th in 1990 to 7th from 2000 to 2004.

But it has continued to experience boom and bust cycles, which create a certain instability in its overall economic health.

Finally, Colorado was the third fastest-growing state in the nation during the 1990s. Its 31 percent growth rate greatly surpassed the U.S. total of 13 percent. Many of these future college students are Hispanic, a population that increased by 73 percent during the 1990s (about one in four Coloradans under age 18 is Hispanic). A huge number of its residents are baby boomers, reflecting significant in-migration over the past three decades. The state also ranked first in the nation in the percentage of its population between the ages of 25 and 44.

In short, the state values highly educated workers, is relatively wealthy, and anticipates a period of high worker turnover and surging higher education enrollments. While all of these factors argue for an enlarged state investment in higher education, the politics of Colorado work against funding increases.

THE POLITICS OF COLORADO

Colorado has a weak state government and a strong system of local governments, a power disparity that is reflected in its state and local tax revenue situation. The state is one of only three in the nation (New York and Texas being the others) in which local governments collect more in tax revenues than the state. In 2003, Colorado placed last in state government taxes as a percentage of personal income. And as is true in most states, higher education is funded from state revenues: there are only two college districts that receive local property-tax revenue.

Colorado's political culture--particularly its fascination with initiatives and referenda--explains another key element of its approach to higher education reform. Since state voters adopted the Progressive Era's expansion of democracy through the initiative and referendum process in 1910, Colorado has been a leader among the states in voting on ballot questions.

Using that voting power, in 1992 voters adopted a constitutional limitation on spending for both state and local governments. This measure, known as the Taxpayer's Bill of Rights (TABOR), restricts state spending to the previous year's amount adjusted for inflation and population changes; revenues exceeding this limit are returned to the taxpayers (as a result of rapid economic

expansion, by fiscal year 2001 refunds approached \$1 billion). While Colorado is not the only state to have a tax and expenditure limit (TEL), most analysts consider TABOR the most restrictive TEL in the nation. TABOR defined spending to include both state general funds (taxes) and cash funds, and legislation clarified that higher education tuition was to be considered cash funds subject to the spending limit and refund requirement.

COLORADO HIGHER EDUCATION AT THE MILLENNIUM

In 2000, Colorado had 28 public institutions of higher education: 13 four-year and 13 two-year institutions, plus two local district community colleges. Higher education in the state was feeling pinched, since its share of the state general fund budget had declined from roughly 20 percent in 1990 to about 13 percent 10 years later. The emphasis was on K-12 education, whose advocates won voter approval for a new constitutional amendment that earmarked funding for schools.

Then in summer 2001, Colorado Gov. Bill Owens established the Blue Ribbon Panel on Higher Education in the 21st Century. Its purpose was to review the state's higher education system and explore new funding options. The 17 panelists represented the private sector, the legislature, the governing boards of several colleges and universities, and the Colorado Commission on Higher Education (CCHE).

The panel first studied the changing face of Colorado, from economics to demographics to graduation rates. The panel soon learned that, according to the 2001 Kids Count Data Book, Colorado ranked third in the nation in its high school dropout rate. Moreover, the National Center for Public Policy and Higher Education's Measuring Up 2000 placed Colorado 31st in the percentage of high school freshmen enrolling in postsecondary education within four years. And the situation wasn't improving: as the state population rose by 31 percent during the 1990s and the number of 18-to-24-year-olds rose 27 percent, the number of resident full-time equivalent students at public institutions increased by only 8 percent. In other words, the proportion of students attending public higher education in the state was nowhere close to the percentage of adults holding four-year degrees, which was largely due to the in-migration of highly educated workers. Later, as policymakers sought to explain to the public what was taking place, this dichotomy came to be known as the "Colorado Paradox."

The panel also learned that low-income students had particular difficulty accessing public higher education in the state. Only 14 percent of Colorado students from low-income families went on to public education in the state, according to Tom Mortenson (see Resources), which placed Colorado last in the country on this measure. That left policymakers pondering whether Colorado's relatively low participation rate was a result of high tuition. According to the annual Washington State Coordinating Board survey on tuition, in 2001-2002 Colorado placed 34th in undergraduate resident tuition and fees at its flagship campus and 38th at its comprehensive colleges and universities. But the state was 18th in undergraduate tuition and fees at the community colleges, exceeding the national average.

THE DECLINING ECONOMY AND THE ROLE OF TABOR

By the winter of 2002, Colorado's economy was in the "bust" phase of one of its boom-and-bust cycles, and the governor began to reduce general fund appropriations to most departments. Higher education was included in the squeeze (general-fund support fell by over \$50 million between fiscal years 2002 and 2003), and TABOR limited using tuition increases to compensate for the loss of state support. Even if the situation were to improve, funding increases to higher education would have to be offset by reductions to other state agencies in order to maintain the overall spending limit--which would be set using the bust year's reduced state expenditures. Thus, future funding for higher education was questionable at best.

So the panel began to consider alternatives to the traditional funding model. Under TABOR, a unit of government can become an "enterprise" if it receives less than 10 percent of its total funding from state and local government. Enterprise status means that the unit's revenue and spending are not counted under the TABOR limits, and each enterprise has the ability to issue revenue bonds. The panel began to conceptualize a new funding system that would allow institutions to become enterprises and thus be excluded from the TABOR limits.

Both policymakers and institutions liked this idea because it uncapped tuitions, thus allowing institutions to recover some of the funding lost under the TABOR limits through tuitions that would more than compensate for them, as well as for further cuts that the legislature might want to make to higher education funding.

Institutions also welcomed the relief from some state regulations that might accompany quasi-independent status.

The way to reduce government investment in higher education to below the 10 percent threshold was to fund not institutions but students. Hence, the voucher system--that is, giving money to students rather than to institutions. Beyond its usefulness in making higher education eligible for enterprise status, the strategy had many appealing features, both to policymakers and institutional representatives.

First, it reflected policymakers' dominant belief that market mechanisms are the most efficient way to provide goods and services. In giving students more direct consumer power and thereby forcing institutions to become more responsive to market forces, the panel hoped that it could lower the total cost, including the cost to the state, of higher education. Panel members also believed that a voucher system might address the low college participation rates of young Coloradans by giving them an easily understood and visible means of support.

On the negative side, politicians worried that direct payments to students could easily be viewed as an entitlement that would be politically difficult to cut; tuitions could rise to politically unpalatable levels at some institutions; and the system could become more stratified by tuition level and selectivity, thus further privileging wealthy over low- and middle-income students. And some policymakers worried that enterprise status could weaken the historic ties between state government and the institutions. Meanwhile, some institutions worried that their enrollments would decrease in a competitive market, especially if students had the option to take their grants to private institutions. Indeed, some institutions might be forced to close, if they proved themselves to be thoroughly non-competitive.

BLUE RIBBON PANEL RECOMMENDATIONS ENACTED

In January of 2003, the Blue Ribbon Panel endorsed the idea of directly funding students in the form of educational savings accounts. Thus students' purchasing power would ultimately determine the future viability of institutions. Institutions would operate in a more entrepreneurial mode, and the state would reduce its oversight. The Colorado Commission on Higher Education would

become less regulatory and more oriented toward providing objective consumer information to students.

The panel recommended that the governor and general assembly consider creating an educational saving accounts for all Colorado residents attending Colorado public institutions. It recommended that undergraduate stipends be set at \$4,000 per year and master's-level stipends at \$8,000, that tuition increases be limited to 5 percent for four-year institutions above any other allowed tuition increases, and that community colleges reduce their tuition by 25 percent. Some money would go directly to the institutions: role-and-mission block grants for PhD students, the University of Colorado's Health Sciences Center, and Colorado State University's (CSU's) veterinary medicine program. Tuition authority and other flexibility would be given to institutions reaching stipulated benchmarks for retention and graduation rates. The panel and the universities both hoped that this would allow the state's higher education system to thrive in an increasingly competitive international environment.

A bill (HB03-1336) was introduced during the 2003 legislative session that called for the creation of college stipends to partially fund higher education in the state. By the time the bill was being considered, the General Assembly had already cut general fund support for higher education for the next fiscal year by approximately \$100 million. In light of the concern that stipends could become entitlements, the legislation stalled in the House Appropriations Committee.

In the 2004 session, a new bill (SB04-189) was introduced to create student stipends. Sponsored by the former Senate majority leader and the House majority leader, this bill created the college opportunity fund to which Colorado resident students would apply. The bill limited the number of credit hours students could take using their stipends to 145 but allowed for waivers by the commission. Private colleges were allowed to participate, but only those among their students who were eligible for Pell Grants could receive the stipends, and they would be given only half the level of support of those attending public institutions. Fee-for-service contracts between the Department of Higher Education (of which the Colorado Commission on Higher Education is a part) and the governing boards would fund graduate studies; medical, law, and veterinary schools; and other educational services. Performance contracts with performance goals for retention and graduation rates for students in general and underserved students in particular, enrollment increases, and

progress on general education core curriculum issues were required for all participating institutions. Finally, the bill authorized the institutions, which would now be receiving less than 10 percent of their total annual revenues directly from state and local governments, to be designated as enterprises if they were able to issue revenue bonds. This bill, known as the College Opportunity Fund (COF), was signed by the governor in May.

In summer 2004 the University of Colorado became the first institution to receive the enterprise designation. But the General Assembly had retained the authority to approve tuitions, and in spring 2005 the Colorado Commission on Higher Education and the University of Colorado became embroiled over proposed tuition increases. Though both sides backed down, institutions, even those with enterprise status, are still not free to impose tuition hikes without approval. In summer 2005 the rest of the institutions received enterprise status. The resident undergraduate stipend was set at \$2,400 for the 2005-2006 academic year.

REFERENDUM ELECTION

On Nov. 1, 2005, Colorado voters approved a referendum that essentially placed a five-year "time out" on future TABOR tax refunds and allowed the state government to spend the revenue. So the state will now be able to spend \$3 billion to \$3.7 billion in refund money over the next five years (assuming, of course, that the economy will be strong and that the money will actually materialize). The funds are supposed to be spent on health care, K-12 and higher education, and transportation. While passage means there will not be draconian cuts to public services, the state will be, in one sponsor's phrase, "treading water." Higher education too will tread water: if it is given roughly a billion dollars, by 2010 it would receive about the same amount appropriated to it in 2002.

THE FUTURE OF COLORADO HIGHER EDUCATION

The student stipend system was designed to give funds to students and not institutions. It was devised to let students know how much the state was subsidizing their educations and to bring greater transparency to state fiscal decisionmaking. But if state subsidies do not begin to cover the costs of attending college in Colorado, the promise to students of a publicly supported

college education is empty.

The strategy was also crafted to recognize the constraints placed upon public higher education by the TABOR amendment. Enterprise designation was designed to let some state entities operate as free players inside a market, on the presumption that paying more attention to market forces and competition would improve their efficiency and effectiveness. But key to any market, and to getting institutional support for the concept of enterprise status for Colorado's public colleges and universities, is the freedom to set prices. And so far, both the executive and legislative branches have been unwilling to grant the governing boards that authority. The notion of free markets working under price controls last surfaced in mid-1970s Eastern European economic textbooks.

For both economic and political reasons, the goal for most governments throughout the world is to have a highly educated population. Can that best be achieved through direct state support of public institutions? That certainly has been the model for well over a century. Or can it be better accomplished through financial support to students, thus letting students determine the success of the institutions? Possibly.

But that model can only work if students are both adequately subsidized with vouchers for all students and financial aid for the neediest and if institutions are free to set prices. So far, as a result of its fiscal structure, it appears that Colorado is unable to do either. As a result, the state will depend even more on its mountains and climate to attract people educated elsewhere. Meantime it risks abandoning its own poor--including a burgeoning Hispanic population--and thereby wasting the brain power that could drive the economy and offer upward mobility. Yet given tuition increases, with a portion earmarked for scholarships for low-income students, Colorado's colleges and universities could achieve that goal, even without additional state support. It is too early to know if the successful vote in November will portend a change in direction. Ultimately, Colorado will have to decide what kind of a society it wishes to become.

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Colorado Public Expenditure Council for two decades.

TABLE 1. COLORADO STATE SUPPORT AND TUITION PER STUDENT

	FY 2002
FY 2005	
State General Fund Per Resident FTE	
Adams State College	\$5,293
\$5,459	
Colorado State University System	6,956
5,114	
University of Colorado System	6,954
4,337	
Colorado School of Mines	8,188
6,392	
Fort Lewis College	3,449
2,860	
Metropolitan State College	3,274
2,321	
Mesa State College	4,021
3,525	
Western State College	4,189
4,473	
University of Northern Colorado	4,660
3,414	
Community College System	3,325
2,410	
State Average	\$5,061
\$3,564	
General Fund Plus Tuition Per Total Student FTE	
Adams State College	\$6,611
\$7,326	
Colorado State University System	10,118
9,455	
University of Colorado System	12,308
12,408	
Colorado School of Mines	13,885
14,403	
Fort Lewis College	6,695
7,900	
Metropolitan State College	5,590
4,920	
Mesa State College	5,740
5,651	

Western State College	6,395
7,253	
University of Northern Colorado	7,168
6,923	
Community College System	5,195
4,648	
State Average	\$8,475
\$8,174	

Source: Joint Budget Committee staff memo, July 2005
Note: Estimates for 2002 for Adams, Fort Lewis, Metro,
Mesa and Western
colleges because they were not independent

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