COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4724-01
Bill No.: Perfected HB 1865
Subject: Education, Higher; Appropriations; Boards, Commissions, Committees, Councils
Type: Original
Date: April 12, 2006

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
General Revenue *	($10,134,069 to Unknown)	($10,650,273 to Unknown)	($11,175,288 to Unknown)
Total Estimated Net Effect on General Revenue Fund *	**($10,134,069 to Unknown)**	**($10,650,273 to Unknown)**	**($11,175,288 to Unknown)**

* subject to appropriation

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
Total Estimated Net Effect on Other State Funds	**$0**	**$0**	**$0**

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 16 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
Local Government	**$0**	**$0**	**$0**

FISCAL ANALYSIS

ASSUMPTION

In response to a similar proposal, officials from the **Office of the Secretary of State** (SOS) stated that many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The SOS is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. The fiscal impact for this fiscal note to SOS for Administrative Rules is less than $1,500. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, we also recognize that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what our office can sustain with our core budget. Therefore, we reserve the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the governor.

Officials from the **Office of Administration**, **Division of Budget and Planning** assume this proposal would have no fiscal impact on their organization.

ASSUMPTION (continued)

In response to a previous version of this proposal, officials from the **Department of Elementary and Secondary Education**, and the **State Tax Commission** assumed the proposal would have no fiscal impact on their organizations.

Officials from **Lincoln University** assume this proposal would have a significant fiscal impact in the form of lost revenues that would otherwise be realized from tuition (incidental fees) and state budget allocations.

Officials from the **Metropolitan Community College** assume this proposal would have a negative fiscal impact on their organization of about $1.1 million.

Officials from **Central Missouri State University** assume this proposal would have a negative fiscal impact of at least $1.5 million for FY 2007.

Officials from **Linn State Technical College** stated they could not estimate the fiscal impact of a previous version of this proposal on their organization.

Officials from the **Department of Higher Education** (DHE) assumed a previous version of this proposal would have a significant impact on the Department of Higher Education. It would greatly increase the department's responsibilities by adding a significant number of duties and would establish a new scholarship program.

Section 173.195

In 2005, 24,347 Missouri high school graduates had a self-reported GPA of 2.5 or above and indicated plans to attend a Missouri 2- or 4-year institution of higher education. Since 53 percent of high school graduates meet the A+ program criteria, that reduces the eligible students to 12,903. Approximately 84 percent of Missouri high school graduates enroll in a Missouri institution, reducing our number to 10,839 eligibles. Finally, as 91 percent of students enroll full-time (at least 12 credit hours), DHE estimated there would be 9,864 eligible students.

DHE estimated that one FTE Research Associate position would be needed at an estimated salary of $35,000 plus associated expense and equipment beginning in FY 2007. This Research Associate would be responsible for overall administration of this program, including but not limited to certifying eligibility of students and working with participating institutions in order to distribute funds accurately and smoothly.

ASSUMPTION (continued)

Section 173.1000-173.1012

This proposal would add responsibilities at the Department of Higher Eduction: negotiate, review, and approve performance contracts; report financial impact of each performance contract; review approved state and private institutions' operations under the performance contract; provide copies of performance contract data to the General Assembly and the public; negotiate exemptions from performance contract requirements; report tuition increase proposals to the General Assembly; calculate unfunded enrollment growth at state institutions; negotiate fee for service contracts; contract for certain education services to the state, and monitor the contracts for delivery of the these services.

DHE estimated that a minimum of 5 FTE would be needed to carry out the duties as outlined. Four FTE (3 Research Associates and 1 Sr. Research Associate) would be assigned to the performance contracting requirements. This group would be responsible for performance contracting duties for a minimum of 58 postsecondary campuses.

Additional unknown costs could arise from the requirement that the department contract for the delivery of certain educational services. The funding to provide these services is unknown, but would be necessary and DHE estimated that one FTE at the Research Associate level would be necessary to oversee the contracts. Additional unknown impact could also arise since the performance measure provisions for operating funding will impact the future actions of the General Assembly and ultimately the state appropriations for higher education institutions. The full funding requirement for the scholarship programs could result in a significant fiscal impact. Also, the Department of Higher Education may incur additional unknown cost responding to requests of the Joint Committee on Higher Education.

Oversight has, for fiscal note purposes only, changed the starting salary for the new positions to correspond to the first step above minimum for comparable positions in the state’s merit system pay grid. This decision reflects a study of actual starting salaries for new state employees for a six month period and the policy of the Oversight Subcommittee of the Joint Committee on Legislative Research. Oversight has reflected the estimated fiscal impact of the Department of Higher Education staffing and the Section 173.195 scholarship program in the General Revenue Fund.

ASSUMPTION (continued)

Oversight has calculated the cost of the scholarship program based on the Department of Higher Education estimate of 9864 eligible students for FY 2007 and increases of five percent per year for FY 2008 and FY 2009.

Oversight assumes that the educational services provided under a performance contract would be in addition to the traditional funding for higher education services. Oversight has not included a fiscal impact for the proposed increased funding for specific scholarship programs, nor for additional operating appropriations funding since those initiatives would require specific action by a future General Assembly.

Amendment 4 - Limit on Tuition and Educational Fees

In response to a similar proposal in the previous session (SB 48, LR 0266-01, 2005), officials from the **Department of Higher Education** (DHE) assume the proposal would have no direct impact on their organization, provided the DHE is not required to perform any duties pursuant to this legislation. However, the proposal legislation could have a significant but unquantifiable negative impact on higher education institutions and state funding.

On average in FY 2004, public higher education institutions in Missouri received 41 percent of their total estimated Unrestricted Education and General Revenues from tuition and fees. Higher education institutions' inability to increase tuition could result in a negative impact on state funding as an increase in state resources would be required to maintain current expenditure levels. Also, this proposal could negatively impact certain private and proprietary institutions since students attending private and proprietary institutions receive state funding in the form of state grants and scholarships.

In response to a similar proposal in the previous session (SB 48, LR 0266-01, 2005), officials from the **University of Missouri** (UM) assumed the proposal would have an unknown but significant negative impact on their organization. Currently when the University's state funding is reduced or extraordinary cost issues arise student fees are increased uniformly across student levels and academic programs to accomplish equilibrium. These fees are set and approved each year and go into effect with the summer semester.

ASSUMPTION (continued)

Oversight assumes this proposal would result in significant but unknown negative fiscal impact to the higher education organizations. Since the proposal would become effective as of August 28, 2006, the first impact would be at the beginning of the second semester of the academic year ending June 30, 2007 (state FY 2008). The impact would increase each semester after that, if higher education institutions were unable to compensate for higher costs by increasing tuition and fees. Oversight assumes the institutions would adopt a number of measures to comply with the proposal's requirements which can not be forecast at this time. Oversight has not shown any impact to the state General Revenue Fund since this proposal would not require any additional state appropriations.

FISCAL IMPACT - State Government	FY 2007 (10 Mo.)	FY 2008	FY 2009
GENERAL REVENUE FUND			
Cost - Higher Education			
Personal Service	($161,460)	($202,151)	($207,024)
Fringe Benefits	($71,139)	($89,068)	($91,294)
Expense and Equipment	($37,470)	($1,854)	($1,910)
Scholarships *	($9,864,000 to Unknown)	($10,357,200 to Unknown)	($10,875,060 to Unknown)
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND *	**($10,134,069 to Unknown)**	**($10,650,273 to Unknown)**	**($11,175,288 to (Unknown)**

* subject to appropriation

FISCAL IMPACT - Local Government	FY 2007 (10 Mo.)	FY 2008	FY 2009
	$0	**$0**	**$0**

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

DESCRIPTION

This proposal would make various changes regarding funding for higher education.

A. This proposal would establish the "Access Missouri Scholarship Program". Any moneys appropriated by the general assembly for such program would be used to provide nonrenewable scholarships for Missouri residents to attend an approved institution of higher education in this state. The maximum scholarship would be one thousand dollars, and scholarships would be offered for any academic term beginning within twenty-four months following the date of graduation from high school to Missouri high school graduates who meet the proposal's requirements.

An applicant who had been found guilty of or pled guilty to any criminal offense or been adjudicated to have committed an offense which would constitute a criminal offense if committed by an adult would be ineligible.

The Coordinating Board for Higher Education would promulgate rules to implement the provisions of this section; prescribe the form and the time and method of awarding scholarships; supervise the processing of applications and select qualified recipients to receive scholarships; make awards to qualified recipients; and determine the manner and method of payment on behalf of the recipient. The Commissioner of Higher Education would establish a procedure for the reimbursement of tuition and fees up to the maximum specified for any student who:

- is not eligible under the A+ program, because the program was not available through the student's high school; and

- has attended a recognized high school in this state for at least three years immediately prior to graduation; students who are dependents of active duty military personnel and all other program requirements would be exempt from the three-year attendance requirement;

- has made a good faith effort to first secure all available federal sources of funding that may be applied to the reimbursement described in this subsection; and

ASSUMPTION (continued)

- has earned a grade average consistent with the requirements of the A+ program and has completed other A+ program requirements including community service during high school as determined by rule of the Coordinating Board for Higher Education; or

- is eligible under the A+ program established under section 160.545, RSMo, and who chooses to apply for and is admitted to an approved institution that does not participate in the A+ program.

A recipient of a scholarship could transfer from one approved institution to another without losing eligibility for the scholarship. If at any time a recipient withdraws from an approved institution, which under the rules of such institution would entitle the student to a refund of any tuition, fees or other charges, the institution would pay the portion of the refund attributable to the scholarship for such term to the Coordinating Board for Higher Education.

The Commissioner of Higher Education would develop a procedure for evaluating the effectiveness of the program described in this section. Such evaluation would be conducted annually and provide the results of the evaluation to the Governor, the General Assembly, and the Joint Committee on Higher Education.

B. This proposal would also create the “Higher Education Student Funding Act".

Each approved state institution, except vocational-technical schools unless otherwise specified, would be eligible to receive additional funding above the fiscal year 2002 operating budget appropriation level only upon establishment of no more than five of the following performance measures:

- Two institutional measures as negotiated by each institution through the Department of Higher Education; and

- Three statewide measures as developed by the Department of Higher Education in consultation with institutions of higher education.

ASSUMPTION (continued)

The department would report at least twice a year to the Joint Committee on Higher Education on its progress in developing the statewide measures and negotiating the institution-specific measures. The performance measures would be reflected in the performance contract of each approved state institution.

When the operating budget appropriation exceeds the fiscal year 2002 level, additional moneys would be delivered to approved state institutions in the form of aid to scholarship programs rather than institutional operating aid until full funding of the Gallagher, Guarantee, Bright Flight, A+, and Access Missouri programs is achieved except as otherwise provided.

Increases in institutional operating appropriations would be limited to two and one-half percent per year until the Gallagher, Guarantee, Bright Flight, A+, and Access Missouri programs are seventy-five percent funded, at which time the General Assembly could adjust the amounts appropriated. Increases in institutional operating appropriations would then be limited to two and one-half percent per year until those scholarship programs are one hundred percent funded. The funding priority thereafter would be one hundred percent funding of the scholarship programs, after which time the operating budget appropriation could be increased.

The Commissioner of the Office of Administration would provide notice to the Governor, the House Budget Chair, the Senate Appropriations Chair, the Joint Committee on Higher Education, and the Revisor of Statutes no later than November fifteenth, of each fiscal year's appropriations from the year of the enactment of this proposal to the year in which the specified appropriation levels.

Each approved state institution would negotiate a performance contract with the Department of Higher Education that specifies the performance goals the institution would achieve during the period that it operates under the performance contract. The contract would contain, at a minimum, the five measures referred to in this proposal. The term of a performance contract could be up to five years. An approved state institution's compliance with the goals specified in the performance contract would be in addition to, but evaluated separately from, the individual goals previously established in conjunction with its institutional mission review and performance funding for the period of the performance contract.

ASSUMPTION (continued)

The specified procedures and goals set forth in the performance contract would be measurable and tailored to the role and mission of each approved state institution that submits a budget request to the coordinating board, and could include, but would not be limited to:

Improving residents' access to higher education;

improving quality and success in higher education;

improving the efficiency of its operations; and

addressing the needs of the state.

To measure progress toward the goals specified in the performance contract, the following issues and any others deemed appropriate by the Department of Higher Education could be addressed:

Appropriate levels of student enrollment, transfer, retention, and graduation rates;

institutional programs specifically designed to assist students in achieving their academic and vocational goals;

student satisfaction and student performance after graduation measured by indicators appropriate to the institutional role and mission, such as employment or enrollment in graduate programs;

comparative cost and productivity data in relation to peer institutions;

assessment of the quality of the institution's academic and vocational programs, including assessment by external reviewers such as accreditation boards and employers, and consideration of student performance on national examinations; and

increasing financial support to sustain and enhance essential functions that could be partially state funded, including but not limited to the provision of need-based and other student financial aid; in the case of an approved state institution with a research mission, capital construction which would be reflected in the general assembly's capital outlay appropriations legislation;

ASSUMPTION (continued)

assessment of financial indicators compared to national benchmarks commonly used to measure financial performance in higher education according to the type of institution; and

increasing financial support to sustain and enhance the educational mission of the approved state institution and, in the case of approved state institutions with a research mission, increasing state and private research capabilities and competitiveness;

increasing enrollment of underserved students, including low-income individuals and minority groups, would be addressed in each performance contract.

The provisions of this section would not apply to any performance contract that extends into a fiscal year for which appropriations fall below the 2002 level.

Each performance contract between the Department of Higher Education and an approved state institution would be reviewed and approved by the Coordinating Board for Higher Education before the contract becomes effective.

The Department of Higher Education would report to the members of the Joint Committee on Higher Education and the members of the Budget and Appropriations Committees of the General Assembly on the financial effect of the provisions of each performance contract with regard to funding for the affected state institution, and on overall funding for the statewide system of higher education, any exemptions granted, and a review of each institution's operations under its performance contract in the annual report. The Department of Higher Education could renew a performance contract at its discretion, with the agreement of the institution's governing board. No contract would be renewed if the goals established have not been achieved unless, in the opinion of the Department of Higher Education, extenuating circumstances were present that prevented the achievement of the established goals. The department would file with the Joint Committee on Higher Education notice of all contracts being renewed and any explanation of contracts being renewed that have not met established goals. The Joint Committee could, within sixty days after receipt of notice, by majority vote of the committee, direct the department to terminate the contract of any institution that has failed to meet established goals.

ASSUMPTION (continued)

Data collected and used to measure an approved state institution's progress towards the goals set forth in the institution's performance contract with the Department of Higher Education would be made available to the members of the Joint Committee on Higher Education and members of the Budget and Appropriations Committees, and each approved state institution covered by a performance contract. The Department of Higher Education would also provide copies of the data to other members of the General Assembly by request.

While operating under a performance contract, an approved state institution:

- Could at the request of its governing board, request the Governor to appoint additional advisory members to the governing board to sustain and enhance the role and mission of the institution. Additional members of the governing board would serve as nonvoting members of the board and would serve without compensation. The role of the advisory members would be to improve the governing board's opportunities to develop and enrich the academic and research programs at the approved state institution and;

- would report to the Coordinating Board for Higher Education its plans for any tuition increases for the following academic year for the board to forward to the general assembly during the budget process; and

- would remain eligible for state-funded capital construction projects and maintenance projects through the budget process.

Approved state institutions, including vocational-technical schools, could achieve eligibility for additional state moneys by the establishment of institutional fee-for-services contracts under this section. Approved private institutions could participate in fee-for-services contracts when the Coordinating Board for Higher Education determines that the best interests of students can be effectively met through such contractual arrangements.

ASSUMPTION (continued)

- Beginning July 1, 2007, an approved institution could negotiate an annual fee-for-services contract with the Department of Higher Education for the delivery of higher education services by the approved institution to the residents of the state. An institution that enters into a fee-for-service contract for basic skills courses, could not charge a student more for a basic skills course than the student would otherwise pay per credit hour for any general education course offered at the same institution.

- Beginning July 1, 2007, the Coordinating Board for Higher Education would be responsible for ensuring the provision of certain postsecondary educational services to underserved areas in the state. The department could enter into annual fee-for-service contracts with one or more approved institutions to provide the higher education services specified. Such educational services would include but not be limited to educational services in rural areas or communities in which the cost of delivering such services is not sustained by the amount received in student tuition; basic skills courses, which are prerequisites to the level of work expected at a postsecondary institution and include academic skills courses and preparatory courses; educational services required of the coordinating board to meet its obligations under reciprocal agreements; and educational services that could increase economic development opportunities in the state, including courses to assist students in career development and retraining.

- The Department of Higher Education could renew a fee-for-services contract at its discretion, with the agreement of the institution's governing board. No contract could be renewed if the goals established have not been achieved, except if, in the opinion of the Department of Higher Education, extenuating circumstances were present that prevented the achievement of the goals. The department would file with the Joint Committee on Higher Education notice of all fee-for-services contracts being renewed and any explanation of contracts being renewed that have not met established goals. The Joint Committee could, within sixty days after receipt of notice, by majority vote, direct the department to terminate any contract that has failed to meet established goals.

ASSUMPTION (continued)

- Data collected and used to measure an institution's performance on its fee-for-services contract with the Department of Higher Education would be made available to the members of the Joint Committee on Higher Education and members of the Budget and Appropriations Committees. The Department of Higher Education would also provide copies of the data to other members of the general assembly and members of the state on request.

- The Coordinating Board would make annual funding recommendations to the General Assembly and to the Governor regarding the funding necessary for the Department of Higher Education to contract on the board's behalf for the provision of higher education services in the state, including but not limited to the services specified.

C. No student enrolled in an approved state or private institution of higher education in this state, could receive financial assistance funded in whole or in part with state moneys which results in financial assistance that exceeds the student's cost for tuition, fees, books, and where applicable, room and board provided at the institution. Approved private institutions would be required to comply with the provisions of this section and would also be required, upon request by the Department of Higher Education, to provide financial information to the department to determine compliance with the requirements of this section.

D. The proposal would establish a joint committee of the General Assembly which would be known as the "Joint Committee on Higher Education", composed of seven members of the Senate and seven members of the House of Representatives. The Senate members of the committee would be appointed by the President Pro Tem and Minority Leader of the Senate and the House members by the Speaker and Minority Leader of the House of Representatives. The committee would:

- Review and monitor the progress of education reform in the state's state institutions of higher education;

- receive reports from the Commissioner of Higher Education concerning the condition of higher education;

- conduct studies and analysis of the system of financing state higher education and the provision of financial aid for higher education,

ASSUMPTION (continued)

- have oversight of the establishment of performance measures and report on their establishment to the Governor, the General Assembly, and to the Joint Committee on Education;
- make recommendations to the General Assembly for legislative action; and
- conduct such studies of any other education issues the committee deems relevant.

The committee could make reasonable requests for staff assistance from the research and appropriations staffs of the House and Senate and the Committee on Legislative Research, as well as the Department of Elementary and Secondary Education, the Department of Higher Education, the Coordinating Board for Higher Education, the State Tax Commission, all state institutions of higher education, and such private higher education institutions and business and other commercial interests and any other interested persons as could be required.

E. Increases in tuition and educational fees for state four-year higher education institutions would be limited to the increase in the consumer price index for urban consumers for the same period.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Office of Administration
Division of Budget and Planning
Department of Elementary and Secondary Education
Department of Higher Education
State Tax Commission
Central Missouri State University
Lincoln University
Linn State Technical College
Metropolitan Community College

Mickey Wilson

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