

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1654-05
Bill No.: # SB 389
Subject: Higher Education
Type: Corrected
Date: January 31, 2007
Corrected bill number

Bill Summary: Would modify the state's higher education programs.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
General Revenue	\$62,938,831	\$23,137,964	\$23,135,114
Total Estimated Net Effect on General Revenue Fund	\$62,938,831	\$23,137,964	\$23,135,114

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
Other - MOHELA	(\$63,333,000)	(\$23,333,000)	(\$23,333,000)
Total Estimated Net Effect on <u>Other</u> State Funds	(\$63,333,000)	(\$23,333,000)	(\$23,333,000)

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 12 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
Total Estimated Net Effect on FTE	0	0	0

Estimated Total Net Effect on All funds expected to exceed \$100,000 savings or (cost).

Estimated Net Effect on General Revenue Fund expected to exceed \$100,000 (cost).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Higher Education** (DHE) assume the following:

Section 160.254.4 Joint Committee on Education

DHE assumed staff resources would be required to collect, analyze and report data relating to the committee's higher education responsibilities. The cost to the department of providing these services could not be estimated at this time since the extent to which the department would be requested to assist the committee could not be predicted.

Oversight assumes that any cost to DHE for assisting the Joint Committee on Education would be minimal and could be absorbed with existing resources.

Section 173.005.2(10) and Section 173.125 Binding Dispute Resolution

The provisions in Section 173.005.2(10), could fiscally impact any institution, if the CBHE deems an institution has violated board policy and requires the payment of a fine. The impact of such actions is unknown as the number and severity of the violations are unknown.

Assuming a minimum number of disputes (an average of one per year), the DHE projects this responsibility would require 0.5 FTE Research Associate, currently estimated at \$36,500 in salary plus associated expense and equipment.

Oversight assumes that the number of institution that may violate the DHE's policies or the number of violations that result can not be determined. Oversight assumes that DHE could absorb the cost of arbitration and levying fines with its current appropriation. Should the number of violations increase dramatically then DHE could request funding through the appropriation process.

ASSUMPTION (continued)

Section 173.005.2(11) Regulation of Out-of-State Public Institutions

These provisions would exempt out-of-state public institutions as defined from the current proprietary school certification requirements and transfer that responsibility to the academic affairs area of DHE. In addition, DHE would be required to hold out-of-state public higher education institutions to similar criteria as required of public in-state higher education institutions and promulgate related rules.

There are currently three institutions operating four instructional locations in Missouri which would be exempted from the proprietary school certification program resulting in a loss of annual fees of \$1,000 per year to the General Revenue Fund. Other institutions may decide to provide programs in Missouri in the future.

Oversight assumes the loss of the annual fee by out-of-state institutions to the General Revenue Fund would not be material and has not reflected this loss in the Fiscal Note. Further, Oversight assumes that DHE can absorb the cost of promulgating rules with its current staff.

Oversight assumes there would be a fiscal impact to evaluating the institutions and that the impact is unknown. Since the institutions would have to apply for out-of-state certificates it is unknown how many will apply.

Section 173.005.2(7) Transfer Equivalencies

The development of the prescribed competencies would require significant research into competencies in these core courses for DHE staff and numerous meetings with representative faculty, administrators, institutional staff from across the state for each course equivalency to reach consensus.

DHE estimates that Academic Affairs staffing levels and workload would require an additional 1.0 FTE Research Associate, currently estimated at \$36,500 in salary plus associated expense and equipment.

ASSUMPTION (continued)

Section 173.093 Need-based Financial Assistance

This section would require need-based grant and scholarship awards to be reduced if the student receives assistance that exceeds the cost of attendance. The proposal would require the institution to take responsibility for ensuring awards do not exceed this limit. Since most institutions already monitor this based on federal student financial assistance requirements, there would be limited fiscal impact on the department.

Section 173.475 Lewis and Clark Discovery Initiative

Section 173.475 would implement the revised Lewis and Clark Discovery Initiative (LCDI), pursuant to which the Missouri Higher Education Loan Authority (MOHELA) would provide \$350 million to the Missouri Development Finance Board (MDFB).

The Cooperation Agreement is contingent on legislative action approving the performance of LCDI and immunizing certain MOHELA board members from conflict of interest claims. This section would have no fiscal impact on the department.

Section 173.1000 and 173.1003 Higher Education Student Funding Act

This section requires the department to collect information about tuition and fee increases at public colleges and universities which maintain a tuition rate above \$100 per credit hour. DHE would also be required to compare the rate of increase to the Midwest Urban Consumer Price Index (CPI-U). If the increase exceeds the CPI, the institution would be required to remit an amount equal to five percent of its current year appropriation unless the Commissioner of Higher Education grants a waiver.

The department would be required to analyze tuition and fee increases to determine if the increase was warranted. DHE estimates that would require an additional 1.0 FTE Research Associate, currently estimated at \$36,500 in salary plus associated expense and equipment.

Finally, public institutions would be required to make pertinent course information available on their Internet site. DHE would establish minimum standards for those disclosures and conduct periodic review of the institutions' internet sites to maintain compliance. DHE assumes the primary responsibility for compliance would be with the institution with only minimal review and/or action by department staff required.

ASSUMPTION (continued)

Oversight assumes the development of an institution reporting system and DHE review of proposed tuition increases could be absorbed with existing resources.

Section 173.1006 Performance Measures

The accountability reporting described in this legislation would require significant additional staff workload and equipment costs. Staff would be required to negotiate and/or develop institutional and statewide measures, collect and audit data, and produce reports for 10 public four-year and 14 public two-year institutions, as well as a system-wide summary report.

DHE would also be required to develop a system for the secure collection and maintenance of data required to perform these functions. DHE estimates that an annual expense of \$100,000 would be incurred in outsourcing contract analysis and technical assistance costs to facilitate these requirements.

DHE estimated an additional 2.0 FTE Research Associate, currently estimated at \$36,500 each in salary plus associated expense and equipment.

Oversight assumes the DHE responsibilities related to performance measures and standards for 24 institutions could be accomplished with one additional FTE. Oversight assumes that many of the standards would be the same for most institutions.

Section 173.1101 through 173.1107 Access Missouri Financial Assistance Program

The rapid implementation of this program required by the emergency clause would have a significant cost. DHE, in cooperation with OA-ITSD and the University of Missouri, has developed a proposal for the development and implementation of the changes needed to the existing delivery system. DHE has determined that engaging an external contractor to provide the needed staff and skills was the best feasible option. This approach would require approximately \$207,000 for outsourced contractors, a contingency fund to cover any unforeseen expenses or financial requirements, funding for a temporary DHE employee to permit existing staff to devote the time necessary to manage and direct this project, and costs for a risk analyst and training developer to ensure a successful completion and deployment of the project results.

ASSUMPTION (continued)

This projection is based on the assumption that actual award amounts in each Expected Financial Contribution (EFC) category would be fixed, as is currently done. The proposal would require a separate award calculation, based on each individual student's actual EFC, for any student above the \$7,000 EFC threshold. The cost for rapid implementation of individual award calculations would likely be higher than projected above; however, DHE is unable to estimate the additional cost that will be required.

The Access Missouri Financial Assistance Program would replace the existing Charles Gallagher Student Grant Program and the Missouri College Guarantee Program. Assuming those programs are deleted from statute and no legacy requirements are needed for their operations, it is assumed the department would be able to adequately administer the new program without additional staffing.

In summary, DHE estimated the cost of all the new provisions, including five additional FTE and related equipment and expenditures which totaled \$577,841 for FY 2008, \$396,900 for FY 2009, and \$405,808 for FY 2010. DHE also stated that unknown additional costs could be incurred with respect to the provisions for which the level of DHE activity could not be predicted.

Oversight has included two additional FTE in this fiscal note. Oversight has, for fiscal note purposes only, changed the starting salary for the new positions to correspond to the second 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 reduced the DHE estimate of equipment and expense in accordance with OA budget guidelines, and Oversight assumes the amounts estimated by DHE for consultants and outsourcing would be adequate. If unanticipated additional costs are incurred, or if multiple proposals are enacted which result in additional costs to DHE, resources could be requested through the budget process.

Officials from the **Office of Administration, Administrative Hearing Commission, Division of Budget and Planning, the Department of Economic Development, the Department of Health and Senior Services, and the Department of Social Services** assume this proposal would have no fiscal impact to their organizations.

ASSUMPTION (continued)

Officials from the **Office of the Attorney General** (AGO) stated that unknown costs may arise from the proposal.

Oversight assumes that any additional costs to the AGO as a result of the proposal would be minimal and could be absorbed with existing resources. If unanticipated costs are incurred or if multiple proposals are enacted which result in additional costs, resources could be requested through the budget process.

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. 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 \$2,500. 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 **Missouri Higher Education Loan Authority** (MOHELA) stated that since the legislation would authorize, but not mandate, certain transfers from MOHELA, the legislation itself should not impact this organization. However, the proposed cooperation agreement approved by MOHELA's board contingent on legislative approval would direct actions with potential effects on the organization's financial condition.

Should MOHELA's board take advantage of the authority to provide funding for capital projects, as it has voted to, capital facilities would be constructed or renovated on the campuses of public colleges and universities.

ASSUMPTION (continued)

MOHELA officials provided an estimate of planned revenues and expenditures related to the proposal. The estimate is based on MOHELA receiving an allocation of \$140 million of the state's tax-exempt bond authority by December 31, 2007 and issuing tax-exempt bonds by March 31, 2008. MOHELA assumes that the tax exempt debt could be issued at an interest rate that is 1.25% lower than the comparable rate for taxable debt. MOHELA would replace taxable debt with tax-exempt debt to the extent of the available allocation, and utilize the cost savings to increase operating profitability. The actual interest rate and other terms of the tax-exempt bonds would be determined at the time they are marketed.

	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>
Estimated cost savings from tax-exempt financing	\$438,750	\$2.7 Million	\$7.4 Million

MOHELA would make planned LCDI payments to the state totaling \$176.144 Million during FY 2007. In addition, MOHELA forecast the following payments during the period included in this fiscal note:

	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>
LCDI payments	\$40.000 million \$23.333 million	\$23.333 Million	\$23.333 Million

Oversight will include the MOHELA payments for FY 2008, FY 2009, and FY 2010 in Other State Funds in this fiscal note, and will assume they would be deposited in the General Revenue Fund. Transactions related to the issuance of tax-exempt bonds and the interest rate differential will not be included in this fiscal note.

Officials from the **University of Missouri** stated they were unable to estimate the fiscal impact of the proposal on their organization.

Officials from the **University of Central Missouri** responded to a previous version of this proposal but did not indicate any fiscal impact to their organization.

Officials from the **Metropolitan Community Colleges** assumed the provisions related to scholarships would have a \$1 Million annual positive impact on students at their institution, but that the section on tuition limitations could have a negative impact of \$300,000 if it was implemented for FY 2008.

ASSUMPTION (continued)

Oversight assumes that Metropolitan Community Colleges would not have a negative fiscal impact from this proposal if proposed tuition increases can meet DHE justification standards.

No other colleges or universities responded to our request for information.

<u>FISCAL IMPACT - State Government</u>	FY 2008 (10 Mo.)	FY 2009	FY 2010
GENERAL REVENUE FUND			
<u>Transfers</u> - from other state funds	<u>\$63,333,000</u>	<u>\$23,333,000</u>	<u>\$23,333,000</u>
<u>Cost</u> - Department of Higher Education			
Personal Service (2 FTE)	(\$52,500)	(\$64,890)	(\$66,837)
Fringe Benefits	(\$23,132)	(\$28,591)	(\$29,448)
Expense and Equipment	(\$11,537)	(\$1,555)	(\$1,601)
Subcontract:			
Performance standards	(\$100,000)	(\$100,000)	(\$100,000)
Financial aid system	<u>(\$207,000)</u>	<u>\$0</u>	<u>\$0</u>
Total cost	<u>(\$394,169)</u>	<u>(\$195,036)</u>	<u>(\$197,886)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>\$62,938,831</u>	<u>\$23,137,964</u>	<u>\$23,135,114</u>
OTHER STATE FUNDS			
<u>Transfers</u> - from MOHELA to General Revenue Fund	<u>(\$63,333,000)</u>	<u>(\$23,333,000)</u>	<u>(\$23,333,000)</u>
ESTIMATED NET EFFECT ON OTHER STATE FUNDS	<u>(\$63,333,000)</u>	<u>(\$23,333,000)</u>	<u>(\$23,333,000)</u>
 <u>FISCAL IMPACT - Local Government</u>			
	FY 2008 (10 Mo.)	FY 2009	FY 2010
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

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

FISCAL DESCRIPTION

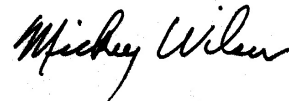
The proposal would make significant changes in the structure and financing of higher education in the state of Missouri. The proposal would:

- * Require the Coordinating Board for Higher Education to ensure that approved public institutions work with the Commissioner to establish agreed-upon competencies for entry-level courses to ensure that courses are accepted in transfer among public institutions.
- * Authorize MOHELA to cooperate by contract with the Department of Economic Development, the Missouri Development Finance Board, and the Curators of the University of Missouri, in connection with the Lewis and Clark Discovery Initiative.
- * Require the Department of Higher Education and the public institutions of higher education to develop certain performance measures by July 1, 2008.
- * Replace the existing Charles Gallagher Student Grant Program and the Missouri College Guarantee Program with the Access Missouri Financial Assistance Program.

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 the Secretary of State
Office of the Attorney General
Office of Administration
 Administrative Hearing commission
 Division of Budget and Planning
Department of Economic Development
Department of Higher Education
Department of Health and Senior Services
Department of Social Services
University of Missouri
University of Central Missouri
Metropolitan Community Colleges
Missouri Higher Education Loan Authority



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Director
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