

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1654-33
Bill No.: Truly Agreed To and Finally Passed SS #6 for SCS for SB 389
Subject: Higher Education
Type: Original
Date: May 9, 2007

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	(\$447,664 to \$1,447,664)	(\$258,182 to \$1,258,182)	(\$262,926 to \$1,262,926)
Total Estimated Net Effect on General Revenue Fund	(\$447,664 to \$1,447,664)	(\$258,182 to \$1,258,182)	(\$262,926 to \$1,262,926)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2008	FY 2009	FY 2010
Lewis and Clark Discovery	\$63,333,000	\$23,333,000	\$23,333,000
Non-State - MOHELA	(\$63,333,000)	(\$23,333,000)	(\$23,333,000)
Missouri Teaching Fellows Program *	\$0	\$0	\$0
Total Estimated Net Effect on <u>Other</u> State Funds *	\$0	\$0	\$0

* Net of transfers in and disbursements.

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 17 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
General Revenue	3.0	3.0	3.0
Total Estimated Net Effect on FTE	3.0	3.0	3.0

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

Section 160.254.4 Joint Committee on Education

In response to a previous version of the proposal, officials from the **Department of Higher 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 168.700 Missouri Teaching Fellows Program

Officials from the **Department of Higher Education** indicated that a similar proposal (SB 443 LR 0870-06) would have no fiscal impact on their agency.

Officials from the **Office of Secretary of State** (SOS) indicated in response to a similar proposal (SB 443 LR 0870-06) 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 to the SOS office for Administrative Rules is less than \$2,500. The SOS recognizes this is a small amount and does not expect additional funding would be required to meet these costs. However, SOS also recognizes that many such bills may be passed in a given year and that collectively the costs may be in excess of what the SOS can sustain with their core budget. Any additional required funding would be handled through the budget process.

Officials from the **Office of the State Treasurer** (STO) stated in response to a similar proposal (SB 443 LR 0870-06) that their agency ensures disbursements are made from a lawful appropriation and don't exceed the amount of the appropriation. That proposal, as written, would create the "Teach for Missouri Fund". STO stated that an FTE (Accounting Specialist I - \$39,324 plus \$17,762 fringe = \$57,086) would be required to monitor these disbursements. (This will be allocated proportionately as a retention of interest earnings on state funds in accordance with Section 30.605 RSMo.)

ASSUMPTION (continued)

Officials from the **Department of Elementary and Secondary Education** (DESE) stated that a similar proposal (SB 443 LR 0870-06) would require that DESE create and maintain a "Teach for Missouri" coordinator position. DES assumed a supervisor position would be required to carry out the requirements of the proposal.

For fiscal note purposes only, **Oversight** has calculated the salary based on the salary listing in current DES job opportunity postings.

Section 172.950 Closed Donor Records

This provision would allow the University of Missouri to close certain records related to donors or potential donors.

Oversight assumes this provision would have no fiscal impact to the state or the University of Missouri.

Section 173.005.2(7) Transfer Equivalencies

In response to a previous version of the proposal, officials from the **Department of Higher Education** (DHE) stated that 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 estimated 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.

Section 173.1102 Enforcement of Board Policy

In response to a similar proposal in the previous session (SB 590, LR 3716-05) officials from the **Department of Higher Education** (DHE) assume the proposal could have a fiscal impact on the DHE depending on the number of cases brought before DHE and the circumstances applicable to each individual case. Any public institution could be impacted fiscally if the Coordinating Board for Higher Education deems an institution has violated board policy.

ASSUMPTION (continued)

Oversight assumes there would be a limited number of violations processed under the terms of this proposal, and that costs related to those violations could be absorbed with existing resources. Oversight also assumes that violations cited by DHE could be remedied in the one-year period allowed by the proposal. Therefore, any fiscal impact on institutions would be temporary.

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

In response to a previous version of this proposal, the **Department of Higher Education** (DHE) stated that 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.

Section 173.093 Need-based Financial Assistance

In response to a previous version of this proposal, the **Department of Higher Education** (DHE) stated that 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.

ASSUMPTION (continued)

Section 173.125 Binding Dispute Resolution

In response to a previous version of this proposal, the **Department of Higher Education** (DHE) stated that this section could fiscally impact any institution. 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 DHE could absorb the cost of arbitration with its current appropriation. Should the number of cases increase dramatically then DHE could request funding through the appropriation process.

Section 173.250 Higher Education Academic Scholarship Program

This provision would increase the "Bright Flight" scholarship to three thousand dollars per for fiscal year 2011 and every year thereafter, and would create a scholarship of one thousand dollars per year for the top five percent of students of one thousand dollars per year for fiscal year 1011 and after.

Oversight notes that this provision would increase the cost of the Bright Flight program significantly, but that increase would begin in FY 2011, after the period covered in this fiscal note.

Section 173.355-173.425 Lewis and Clark Discovery Initiative

In response to a previous version of this proposal, the **Department of Higher Education** (DHE) stated that these provisions would implement the revised Lewis and Clark Discovery Initiative.

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.

Project funding for the institutions of higher education would be prohibited for any institution which knowingly employs in an academic position, as of September 1, 2001, any person required to register as a sex offender.

ASSUMPTION (continued)

Oversight assumes the institutions would develop and implement policies and procedures to adequately screen academic employees.

Section 173.475 Legislative Academic Experience

This provision would prohibit a state supported institution of higher education from declining a candidate for an academic appointment due to the lack of a graduate degree, provided the candidate has a baccalaureate degree and served eight years in the Missouri Legislature.

Oversight assumes this provision would have no fiscal impact to the state or the institutions of higher education.

173.616 Regulation of Out-of-State Public Institutions of Higher Education

This provision would exempt these institutions from regulation by the Department of Higher Education.

Oversight assumes this provision would have no fiscal impact on the state.

Section 173.1000 and 173.1003 Higher Education Student Funding Act

In response to a previous version of this proposal, the Department of Higher Education (DHE) stated that this section would require DHE 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 173.004 Publication of Faculty Assignments

This provision would require the Department of Higher Education to ensure that institutions of higher education publish specific information about instructional staff.

Oversight assumes the Department of higher Education and the institutions can develop these procedures with existing resources.

Section 173.1006 Performance Measures

In response to a previous version of the proposal, officials from the **Department of Higher Education** (DHE) stated that 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.

ASSUMPTION (continued)

Section 173.1101 through 173.1107 Access Missouri Financial Assistance Program

In response to a previous version of the proposal, officials from the **Department of Higher Education** (DHE) stated that 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.

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.

ASSUMPTION (continued)

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**, and the **Department of Economic Development**, assume that a previous version of this proposal would have no fiscal impact to their organizations.

Officials from the **Department of Health and Senior Services** and the **Department of Social Services** assumed a previous version of this proposal would have no fiscal impact to their organizations.

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

ASSUMPTION (continued)

In response to a previous version of this proposal, 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.

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

This proposal would create a Lewis and Clark Discovery Fund, and payments from MOHELA would be deposited into that fund.

ASSUMPTION (continued)

Oversight will include the MOHELA payments for FY 2008, FY 2009, and FY 2010 in Other State Funds in this fiscal note, and will record the corresponding transfers to the Lewis and Clark Discovery Fund. Transactions related to the issuance of tax-exempt bonds will not be included in this fiscal note.

Officials from the **University of Missouri** stated they were unable to estimate the fiscal impact of a previous version 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.

In response to a previous version of this proposal, officials from the **Metropolitan Community Colleges** assumed the provisions related to scholarships would have a positive fiscal impact from \$1 Million to \$1.5 million in the form of additional scholarship funding.

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.

Officials from **Missouri State University** (MSU) assumed a previous version of the proposal would make additional capital project financing and additional funding for student financial aid available for their organization. MSU officials also assumed the proposed tuition control provisions could have an unknown impact on their organization.

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

Officials from the **Office of the State Treasurer** (STO) assumed a previous version of the proposal would close the Missouri College Guaranty Fund and create a new fund, the "Access Missouri Financial Assistance Fund", and that the STO would need to add 1.0 FTE Accounting Specialist I to manage the transactions in the new fund.

Oversight assumes the transactions in the new fund would be similar in nature and volume to the transactions in the fund that would be closed, and could be managed with existing staff.

ASSUMPTION (continued)

Northwest Missouri State University Property Conveyance

These provisions would authorize the board of regents of Northwest Missouri State University to convey all interest in fee simple absolute in property owned by the state in Nodaway County. Consideration for the conveyance would be negotiated by the board of regents and the purchaser of the property, and the Attorney General would approve the form of the instrument of conveyance.

Oversight assumes the property would be conveyed at or near its market value and would result in no net fiscal impact to the state or to local governments.

<u>FISCAL IMPACT - State Government</u>	FY 2008 (10 Mo.)	FY 2009	FY 2010
GENERAL REVENUE FUND			
<u>Cost - Department of Higher Education</u>			
Personal Service (2.0 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	(\$207,000)	\$0	\$0
Total cost	<u>(\$394,169)</u>	<u>(\$195,036)</u>	<u>(\$197,886)</u>
 Cost - DES - Appropriation for "Missouri Teaching Fellows Program"	 <u>(\$0 to \$1,000,000)</u>	 <u>(\$0 to \$1,000,000)</u>	 <u>(\$0 to \$1,000,000)</u>
<u>Cost - DES</u>			
Personal Service (1.0 FTE)	(\$31,909)	(\$39,440)	(\$40,623)
Fringe Benefits	(\$14,442)	(\$17,851)	(\$18,386)
Equipment and Expense	(\$7,144)	(\$5,855)	(\$6,031)
Total Personal Costs (\$168,700.5)	<u>(\$53,495)</u>	<u>(\$63,146)</u>	<u>(\$65,040)</u>
 ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	 <u>(\$447,664 to \$1,447,664)</u>	 <u>(\$258,182 to \$1,258,182)</u>	 <u>(\$262,926 to \$1,262,926)</u>
 Estimated Net FTE Change for General Revenue	 3.0 FTE	 3.0 FTE	 3.0 FTE
 LEWIS AND CLARK DISCOVERY FUND			
 Transfers in - from MOHELA	 <u>\$63,333,000</u>	 <u>\$23,333,000</u>	 <u>\$23,333,000</u>
 ESTIMATED NET EFFECT ON LEWIS AND CLARK DISCOVERY FUND	 <u>\$63,333,000</u>	 <u>\$23,333,000</u>	 <u>\$23,333,000</u>

<u>FISCAL IMPACT - State Government</u>	FY 2008 (10 Mo.)	FY 2009	FY 2010
MISSOURI TEACHING FELLOWS PROGRAM FUND			
<u>Transfer In</u> - Appropriation from General Revenue	<u>\$0 to \$1,000,000</u>	<u>\$0 to \$1,000,000</u>	<u>\$0 to \$1,000,000</u>
<u>Cost</u> - Disbursements to qualified applicants	<u>(\$0 to \$1,000,000)</u>	<u>(\$0 to \$1,000,000)</u>	<u>(\$0 to \$1,000,000)</u>
ESTIMATED NET EFFECT ON MISSOURI TEACHING FELLOWS PROGRAM FUND	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
OTHER STATE FUNDS			
<u>Transfers</u> - from MOHELA to Lewis and Clark Discovery 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

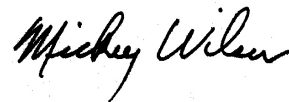
The proposal would make significant changes in the structure and financing of higher education in the state of Missouri. The proposal would:

- * 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.
- * Create the Missouri Teaching Fellows Program.
- * 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 the State Treasurer
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
Missouri State University
University of Missouri
University of Central Missouri
Metropolitan Community Colleges
Missouri Higher Education Loan Authority



Mickey Wilson, CPA
Director
May 8, 2007