

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1808-03
Bill No.: SB 437
Subject: Education, Higher; Higher Education Department; Boards, Commissions,
Committees, Councils; General Assembly
Type: Original
Date: March 22, 2013

Bill Summary: This proposal creates a model for funding the state's public institutions of higher education.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
General Revenue*	\$0	\$0	\$0
Total Estimated Net Effect on General Revenue Fund	\$0	\$0	\$0

***Offsetting Savings and Transfers Out are \$0 or Unknown for FY 2015 and FY 2016**

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 9 pages.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
Higher Education Performance Fund*	\$0	\$0	\$0
Universities**	\$0	\$0	\$0
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

***Offsetting Transfers In and Out are \$0 or Unknown for FY 2015 and FY 2016**

****Offsetting Transfers In and Losses are \$0 or Unknown for FY 2015 and FY 2016**

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
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 2014	FY 2015	FY 2016
Local Government*	\$0	\$0	\$0

***Offsetting Transfers In and Losses are \$0 or Unknown for FY 2015 and FY 2016**

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of Administration - Division of Budget and Planning (BAP)** state that the proposed legislation should not result in additional costs or savings to their agency.

BAP further states that this legislation calculates the state share of the operating budgets for the public institutions of higher education. It also creates a new fund, the Higher Education Performance Fund, from which performance funding for the public institutions of higher education is to be appropriated at an amount equal to ten percent of each institution's total funding. This legislation doesn't mandate that the state share of the institutions' operating budgets be funded nor does it mandate additional funding for performance funding. Higher education institution funding remains subject to appropriation and therefore there is no statewide fiscal impact associated with this legislation.

Officials from the **Joint Committee on Education** state there aren't any duties that would result in additional costs. Also, the model doesn't call for any predetermined level of funding or time line for implementation. In addition, there would be no costs to the institutions.

Officials from **Linn State Technical College** and **Kansas City Metropolitan Community College** each assume this proposal could have a positive fiscal impact on their respective institutions.

Officials from **Missouri State University** state any potential fiscal impact cannot be determined at this time.

According to officials from the **Office of Secretary of State (SOS)**, many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The SOS's office 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 Secretary of State's office for Administrative Rules is less than \$2,500.

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ASSUMPTION (continued)

SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, SOS also recognizes 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 their office can sustain with their core budget. Therefore, SOS reserves 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.

Oversight assumes the SOS could absorb the costs of printing and distributing regulations related to this proposal with core funding. If multiple bills pass which require the printing and distribution of regulations at substantial costs, the SOS could request funding through the appropriation process.

Officials from the **Department of Higher Education, Missouri House of Representatives, Missouri Senate, Office of State Treasurer,** and the **Joint Committee on Administrative Rules** each assume the proposal would not fiscally impact their respective agencies.

Oversight assumes the funding model would not be implemented until FY 2015 at the earliest and that the total appropriation for Higher Education would not be impacted by this proposal.

FISCAL IMPACT - State Government

FY 2014
(10 Mo.)

FY 2015

FY 2016

GENERAL REVENUE

Savings - Higher Education - Reduced
 general funding appropriation with 10%
 now going to the new fund

\$0 \$0 or Unknown \$0 or Unknown

Transfer Out - Higher Education
 Performance Fund - 10% of Higher
 Education funding appropriation
 (§173.1520)

\$0 \$0 or
(Unknown) (Unknown)

**ESTIMATED NET EFFECT ON
 GENERAL REVENUE**

\$0 \$0 \$0

**HIGHER EDUCATION
 PERFORMANCE FUND**

Transfer In - General Revenue - 10% of
 Higher Education funding appropriation

\$0 \$0 or Unknown \$0 or Unknown

Transfer Out - Colleges and Universities -
 Performance funding

\$0 \$0 or
(Unknown) (Unknown)

**ESTIMATED NET EFFECT ON
 HIGHER EDUCATION
 PERFORMANCE FUND**

\$0 \$0 \$0

UNIVERSITIES

Transfer In - Universities - Performance
 funding

\$0 \$0 or Unknown \$0 or Unknown

Loss - Universities- Decrease in
 performance funding due to not satisfying
 performance measures

\$0 \$0 or
(Unknown) (Unknown)

**ESTIMATED NET EFFECT ON
 UNIVERSITIES**

\$0 \$0 \$0

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<u>FISCAL IMPACT - Local Government</u>	FY 2014 (10 Mo.)	FY 2015	FY 2016
LOCAL POLITICAL SUBDIVISIONS			
<u>Transfer In</u> - Colleges - Performance funding	\$0	\$0 or Unknown	\$0 or Unknown
<u>Loss</u> - Colleges - Decrease in performance funding due to not satisfying performance measures	<u>\$0</u>	\$0 or (Unknown)	\$0 or (Unknown)
ESTIMATED NET EFFECT ON LOCAL POLITICAL SUBDIVISIONS	<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

This act modifies the way the state funds public institutions of higher education by creating a new model for calculating institutions' state funding.

The higher education funding model provides that institutions will be funded based on both costs and outcomes. The model calculates institutions' core operational expenditures, which are divided into six categories:

- Academic support will include costs associated with libraries, computer labs, museums, and dean's offices.
- Institutional support will include expenses such as general administrative services, executive management, legal operations, fiscal operations, human resources, data systems, and central operations.
- Instruction will include faculty salaries and benefits, office supplies, academic department administration and research and public service expenses that are not separately budgeted.
- Public service will include media, public broadcasting, conferences, and community services.
- Research includes separately budgeted research and research centers.
- Student services includes admissions, registrar, academic advising, career services,

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financial aid administration, and student activities.

FISCAL DESCRIPTION (continued)

§173.1515 For institutions in the baccalaureate sector, master's sector, research sector, and the statewide technical education institution sector, the state share of the operating budget estimate will be the sum of the institution's totals for academic support and institutional support and instruction and public service and research and student services multiplied by the sector-specific modifier. The same calculation will be used for institutions in the associate's sector except any community college that receives local revenue will have fifty percent of local revenue subtracted from the subtotal.

§173.1510 All courses that are completed at an institution will be weighted based on their discipline and level and divided into clusters. Weights are assigned in the act. The Coordinating Board for Higher Education must review the disciplines, clusters, and weights every five years and make recommendations to the General Assembly on their revision.

§173.1530 All calculations will use a three year rolling average of final data from the Integrated Postsecondary Education Data System (IPEDS), except for fiscal year 2015. Fiscal year 2015 will use an average of the final data for fiscal years 2010 and 2011.

§163.191 - COMMUNITY COLLEGES Currently, community colleges receive one appropriation for the entire sector that is divided amongst them by a community college resource allocation model. This act removes this resource allocation model and requires that each community college's state funding be calculated separately by the new funding model.

§173.1520 PERFORMANCE FUNDING Ten percent of each public institution of higher education's state appropriation must be designated and set aside as performance funding. This amount of money will be placed into the Higher Education Performance Fund.

The Coordinating Board for Higher Education must adopt institutional performance measures in collaboration with the institutions. These performance measures must be updated every five years beginning in 2017.

An institution will receive performance funding if it satisfies the performance measures. The amount of performance funds earned by an institution will be in proportion to the number of performance measures it meets. Each institution must submit proof to the Coordinating Board for Higher Education that it has satisfied performance measures. The Coordinating Board will then authorize the release of the appropriate amount of performance funds to the institution.

§173.1525 STOP-LOSS PROVISION If an institution's funding as calculated by the model is less than what the institution receives under the current method of state funding, the institution
FISCAL DESCRIPTION (continued)

will receive ninety-eight percent of previous year's funding until such time as the institution is on the model.

§173.1535 JOINT COMMITTEE ON EDUCATION REVIEW OF THE MODEL The Joint Committee on Education must review the functionality of the higher education funding model every five years beginning in academic year 2018-2019. The Joint Committee must consult with the Coordinating Board for Higher Education, the Department of Higher Education, at least two academic researchers, the Midwest Higher Education Compact, and the Education Commission of the States.

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

Department of Higher Education
Office of Administration
 Division of Budget and Planning
Joint Committee on Administrative Rules
Missouri House of Representatives
Missouri Senate
Office of Secretary of State
 Administrative Rules Division
Joint Committee on Education
Office of State Treasurer
Colleges and Universities
 Kansas City Metropolitan Community College
 Linn State Technical College
 Missouri State University



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