

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4393-07
Bill No.: Perfected SCS for SB 492
Subject: Education, Higher; Higher Education Department; Boards, Commissions, Committees, Councils; General Assembly
Type: Original
Date: February 18, 2014

Bill Summary: This proposal requires the cooperative development of a university resource allocation model that incorporates performance funding for public four-year institutions of higher education and State Technical College of Missouri.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2015	FY 2016	FY 2017
General Revenue	\$0	\$0	\$0
Total Estimated Net Effect on General Revenue Fund	\$0	\$0	\$0

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2015	FY 2016	FY 2017
Higher Education Funds	\$0*	\$0*	\$0
Total Estimated Net Effect on <u>Other</u> State Funds	\$0*	\$0*	\$0

***Increases or decreases to 4-year public institutions of higher learning and State Technical College of Missouri would net out to zero in FY 2015 and 2016.**

Numbers within parentheses: () indicate costs or losses. This fiscal note contains 7 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2015	FY 2016	FY 2017
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2015	FY 2016	FY 2017
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 2015	FY 2016	FY 2017
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

In response to the Senate Committee Substitute, officials from the **Department of Higher Education** stated an assumption of no fiscal impact, based on the fact that this proposal is solely for a distribution or allocation system, not a funding model. It does not specify target or required funding levels. Its only purpose is to distribute the funds available through the appropriation process.

Also in response to the Senate Committee Substitute, officials from the **Joint Committee on Education (JCED)** stated there are no additional costs for the JCED associated with this legislation.

Officials from the **Joint Committee on Administrative Rules (JCAR)** stated this proposed legislation is not anticipated to cause a fiscal impact to JCAR beyond its current appropriation.

In response to the Senate Committee Substitute, officials from the **Missouri House of Representatives** and the **Missouri Senate** assumed no fiscal impact.

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. 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 **Linn State Technical College** state this proposed legislation could have a positive impact on their college.

ASSUMPTION (continued)

In response to the Senate Committee Substitute, the following institutions of higher education provided responses:

Officials from the **University of Missouri System (UM)** assumed the proposed legislation could have a positive fiscal impact on UM, but also assume it will greatly depend on the structure of the formula.

Officials from **Missouri State University** assumed this proposal would have a positive fiscal impact. Given the various factors in the formula, it is difficult to determine a specific dollar amount at this time.

Officials from the **University of Central Missouri (UCM)** provided the following response:

Although UCM supports the performance funding concept, UCM believes there would be a negative financial impact on their institution if there is no provision to take into account funds previously assigned to an institution based on an approved specific mission, provided that mission is still in effect. Any equity funding derived from FTE students or credit hours generated should be based on monies that do not include mission enhancement funds.

With regard to the adoption of performance measures, there could be a negative fiscal impact on UCM if the measures and/or the methods of assessments that are adopted increase the chances of institutions receiving funds on most if not all elements, whether it is "deserved" or not. For example, improvement is always good but may not warrant performance funding if the performance does not meet some minimal level. Going from a 19% six-year graduation rate to a 20% rate is improvement but not necessarily deserving of performance funding. In contrast, another university that has a 55%, six-year graduation rate, but slips to 54%, may lose performance funding even though its six-year graduation rate is far superior.

In the absence of a common sampling method, there is potential for selection bias to operate and allow an institution to qualify for funding even though the results are based on a restricted or selective sample.

In response to the introduced version of this proposal, officials from **Northwest Missouri University** assumed no fiscal impact to their university resulting from this legislation.

ASSUMPTION (continued)

Oversight assumes the proposal could affect four-year institutions of higher learning and State Technical College of Missouri with the proposed allocation of increases in funding. If there is an increase in funding from the previous fiscal year's state funding level, individual institutions could see either an increase, decrease, or no change in funding depending on the allocation of funding described in the proposal.

Oversight assumes the amendments to the Senate Committee Substitute change the implementation date of the resource allocation model to July 1, 2014 and limit the model to two fiscal years, FY 2015 and FY 2016.

Officials from Harris-Stowe State University, Lincoln University, Missouri Southern State University, Missouri Western State University, Southeast Missouri State University, and Truman State University did not respond to **Oversight's** request for fiscal impact.

<u>FISCAL IMPACT - State Government</u>	FY 2015	FY 2016	FY 2017
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HIGHER EDUCATION FUNDS

<u>Transfer In</u> - Four-year Colleges and Universities and State Technical College of Missouri - Increased funding based on performance measures	Unknown	Unknown	\$0
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<u>Loss of Funding</u> - Four-year Colleges and Universities and State Technical College of Missouri - Decreased funding based on performance measures	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>\$0</u>
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ESTIMATED NET EFFECT ON HIGHER EDUCATION FUNDS	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
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<u>FISCAL IMPACT - Local Government</u>	FY 2015	FY 2016	FY 2017
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	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
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FISCAL IMPACT - Small Business

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

FISCAL DESCRIPTION

This bill requires each public four-year institution of higher education and State Technical College of Missouri to annually prepare an institutional budget request and submit it to the Department of Higher Education (DHE). DHE must review the budget requests and prepare annual appropriation recommendations. The DHE budget submission must include a recommended level of funding for each public four-year institution of higher education.

This bill requires the cooperative development of a university resource allocation model by the public four-year institutions of higher education, State Technical College of Missouri, and DHE. The Coordinating Board for Higher Education (CBHE) must approve the model.

The core funding level for each institution will be the appropriated amount for each institution for fiscal year 2014. This amount shall be adjusted annually in accordance with the model beginning in fiscal year 2015. DHE must evaluate the model's effectiveness and submit a report to the Joint Committee on Education, the President Pro Tempore of the Senate, and the Speaker of the House of Representatives by January 1, 2016 and every four years thereafter.

Any annual increases in appropriations from the previous fiscal year's state funding level will be distributed in the following manner: unless otherwise provided by the General Assembly during the appropriations process, at least ninety percent of the increase will be distributed based on the institutional performance measures; unless otherwise provided by the General Assembly during the appropriations process, no more than ten percent of the increase will be distributed to address inequitable state funding on a per student basis, inequitable state funding determined on a per credit hour basis, or a combination of the two, as described in the bill. Any inequity that results from performance funding measures must not be considered when distributing funds to address inequitable state funding.

By July 1, 2014, the CBHE must develop and adopt at least five institutional performance measures for each public four-year institution of higher education and State Technical College of Missouri, in collaboration with the institutions and the Joint Committee on Education. The CBHE must evaluate and, if necessary, revise the measures every three years. The CBHE must promulgate the institutional performance measures as administrative rules.

FISCAL DESCRIPTION (continued)

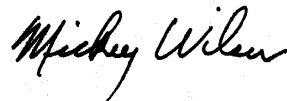
The university resource allocation model shall expire on June 30, 2016.

This proposal has an emergency clause.

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
Joint Committee on Administrative Rules
Joint Committee on Education
Missouri House of Representatives
Missouri Senate
Office of Secretary of State
 Administrative Rules Division
Colleges and Universities
 Linn State Technical College
 Northwest Missouri State University
 University of Missouri System
 University of Central Missouri
 Missouri State University



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