

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 4393-09  
Bill No.: HCS for SCS for SB 492  
Subject: Education, Higher; Higher Education Department; Boards, Commissions, Committees, Councils; General Assembly  
Type: Original  
Date: April 9, 2014

Bill Summary: This proposal modifies provisions relating to authorization for funding and administrative processes in higher education.

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
FUND AFFECTED	FY 2015	FY 2016	FY 2017
General Revenue	\$0 or (Unknown - Could exceed \$100,000)	\$0 or (Unknown - Could exceed \$100,000)	\$0 or (Unknown - Could exceed \$100,000)
<b>Total Estimated Net Effect on General Revenue Fund</b>	<b>\$0 or (Unknown - Could exceed \$100,000)</b>	<b>\$0 or (Unknown - Could exceed \$100,000)</b>	<b>\$0 or (Unknown - Could exceed \$100,000)</b>

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

**\*Increases or decreases to 4-year public institutions of higher learning would net out to zero in FY 2016 and 2017.**

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

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

<b>ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)</b>			
<b>FUND AFFECTED</b>	<b>FY 2015</b>	<b>FY 2016</b>	<b>FY 2017</b>
<b>Total Estimated Net Effect on FTE</b>	<b>0</b>	<b>0</b>	<b>0</b>

- 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).

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
<b>FUND AFFECTED</b>	<b>FY 2015</b>	<b>FY 2016</b>	<b>FY 2017</b>
<b>Local Government</b>	<b>\$0 or Unknown - Could exceed \$100,000</b>	<b>\$0 or Unknown - Could exceed \$100,000</b>	<b>\$0 or Unknown - Could exceed \$100,000</b>

## FISCAL ANALYSIS

### ASSUMPTION

Officials from the **Office of the Governor** state there should be no added cost to the Governor's Office as a result of this proposal.

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.

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 the **Missouri Senate** state the proposed legislation has no fiscal impact beyond existing appropriations.

Officials from the **Joint Committee on Education (JCED)** stated there are no additional costs for the JCED associated with this legislation.

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

ASSUMPTION (continued)

Officials from the **Department of Higher Education (DHE)** provided the following assumptions regarding this House Committee Substitute:

**§161.097 - Establishes the Missouri Advisory Board for Educator Preparation**

DHE assumed this section does not appear to have a direct fiscal impact on their agency

Officials from the **Department of Elementary and Secondary Education** assume this section will result in insignificant costs for their agency.

**§163.191 & §178.638 - Community Colleges and State Technical College of Missouri**

DHE states an assumption of no fiscal impact is based on the fact that this is solely a distribution or allocation model and does not imply or require a specific level of funding. Its only purpose is to distribute the new funds provided through the appropriation process to each institution. Although some staff time will be required to comply, most of the primary development and implementation tasks have already been completed.

**Oversight** assumes the proposal could affect community colleges and State Technical College of Missouri with the proposed re-allocation of ten percent of funding. Although the amount of funding as a whole would not change, individual institutions could see either an increase, decrease, or no change in funding depending on the ten percent allocation of funding described in the proposal.

*§163.191.5* - The DHE shall request new and separate state-aid funding for any new community college district for its first 6 years of operation based on the same level of funding being provided to existing districts. This is not a substantive change from the current process.

**Oversight** assumes the fiscal impact would be \$0 if no new community college districts are created or (Unknown - Could exceed \$100,000) if a new district is created.

**§173.030 - Interstate Reciprocity**

*§173.030.6* - The DHE will be in charge of entering into agreements for interstate reciprocity regarding the delivery of postsecondary distance education, administering such agreements, and approving or disapproving applications to participate in such agreements. This section also authorizes the DHE to charge fees for approval of institutional participation. It is assumed the fee would be \$300 annually per institution and that 50 institutions would participate. The DHE

ASSUMPTION (continued)

also estimates it will require 1/3 FTE to adequately accomplish the approval process. The DHE currently has a request for 1 FTE for review of out-of-state public institutions, which could be partially reassigned to this function if it is approved as part of the budget process.

**Oversight** assumes fees will offset the costs associated with the review and evaluation of applications. It is not known how many institutions of higher education will participate in the reciprocal agreement; therefore, Oversight, for fiscal note purposes only, will assign an offsetting fiscal impact of Up to \$15,000 per year.

**§173.1006 - Performance Measures**

*§173.1006.2* -The Coordinating Board of Education shall evaluate and/or revise institutional performance measures at least every three years, beginning in calendar year 2019. This can be accomplished with existing staff.

*§173.1006.3* -The DHE is responsible for evaluating the effectiveness of performance funding measures and shall submit a report based on its findings by November 2019 and every four years thereafter. This can be done with existing staff.

**§173.1540 - Four-Year Institutions**

*§173.1540.1* - Each public four-year institution would be required to submit a budget request to the DHE, which the DHE will use to prepare an appropriations request for each institution. This is not a substantive change from the current process.

*§173.1540.2* - Appropriations to the institutions are required to be in accordance with an allocation/distribution model developed and revised by the public four-year institutions and the DHE. While this would require some staff time, the basic framework for this process has already been developed by the institutions.

*§173.1540.3* - Initial core funding would be set at the FY 2015 funding level, which would be adjusted annually according to the increase allocation model beginning in FY 2016. This process can be enacted from existing practice.

*§173.1540.4* - In accordance with the increase allocation model enacted in FY 2016, no more than 10 percent of the appropriation increase may be distributed to address inequitable state funding (either through a per-student basis or weighted FTE credit hours). At least 90 percent of the increase must be allocated through the performance funding model. The DHE shall be

ASSUMPTION (continued)

responsible for evaluating the effectiveness of the increased allocation model and must submit a report by November 2019 and every four years thereafter. This should be accomplished with existing staff.

**Oversight** assumes the proposal could affect public colleges and universities with the proposed re-allocation of ten percent of funding. Although the amount of funding as a whole would not change, individual institutions could see either an increase, decrease, or no change in funding depending on the ten percent allocation of funding described in the proposal.

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

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.

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 **Northwest Missouri University** assumed no fiscal impact to their university resulting from this legislation.

In response to similar legislation included in HB 1390, the following responses were received from colleges and universities:

Officials from **Missouri Western State University** assumed there is a potential loss in revenue on the basis of failure to meet performance standards. Based on past allocations, losses in appropriation as a result of missed standards could be between \$200,000 and \$400,000 per missed performance standard annually.

Officials from **Kansas City Metropolitan Community College** assumed the bill could have a significant but unknown impact on their college.

Officials from **St. Louis Community College** assumed no fiscal impact.

Officials from the following colleges and universities: Crowder, East Central Community College, Harris-Stowe, Jefferson College, Lincoln University, Moberly Area Community College, Missouri Southern State University, Southeast Missouri State University, State Fair Community College, St. Charles Community College, Three Rivers Community College, and Truman State University did not respond to **Oversight's** request for fiscal impact.

<u>FISCAL IMPACT - State Government</u>	FY 2015 (10 Mo.)	FY 2016	FY 2017
<b>GENERAL REVENUE</b>			
<u>Income</u> - Department of Higher Education (DHE) - Participation fees (§173.030)	Up to \$15,000	Up to \$15,000	Up to \$15,000
<u>Costs</u> - DHE - Review and evaluation of applications (§173.030)	(Up to \$15,000)	(Up to \$15,000)	(Up to \$15,000)
<u>Transfer Out</u> - DHE - Funding for new community college districts (§163.191.5)	\$0 or (Unknown - Could exceed \$100,000)	\$0 or (Unknown - Could exceed \$100,000)	\$0 or (Unknown - Could exceed \$100,000)
	<u>\$0 or (Unknown - Could exceed \$100,000)</u>	<u>\$0 or (Unknown - Could exceed \$100,000)</u>	<u>\$0 or (Unknown - Could exceed \$100,000)</u>
<b>ESTIMATED NET EFFECT ON GENERAL REVENUE</b>			
	<u>\$0 or (Unknown - Could exceed \$100,000)</u>	<u>\$0 or (Unknown - Could exceed \$100,000)</u>	<u>\$0 or (Unknown - Could exceed \$100,000)</u>
<b>HIGHER EDUCATION FUNDS</b>			
<u>Transfer In</u> - Four-year Colleges and Universities - Increased funding based on performance measures (§173.1540)	\$0	Unknown	Unknown
<u>Loss of Funding</u> - Four-year Colleges and Universities - Decreased funding based on performance measures (§173.1540)	<u>\$0</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
<b>ESTIMATED NET EFFECT ON HIGHER EDUCATION FUNDS</b>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2015 (10 Mo.)	FY 2016	FY 2017
<b>LOCAL POLITICAL SUBDIVISIONS</b>			
<u>Transfer In</u> - Two-year Colleges - Increased funding based on performance measures (§163.191 & §178.638)	\$0	Unknown	Unknown
<u>Transfer In</u> - Funding for new community college districts (§163.191.5)	\$0 or Unknown - Could exceed \$100,000	\$0 or Unknown - Could exceed \$100,000	\$0 or Unknown - Could exceed \$100,000
<u>Loss of Funding</u> - Two-year Colleges - Decreased funding based on performance measures (§163.191 & §178.638)	<u>\$0</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
<b>ESTIMATED NET EFFECT ON LOCAL POLITICAL SUBDIVISIONS</b>	<u><b>\$0 or Unknown - Could exceed \$100,000</b></u>	<u><b>\$0 or Unknown - Could exceed \$100,000</b></u>	<u><b>\$0 or Unknown - Could exceed \$100,000</b></u>

FISCAL IMPACT - Small Business

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

FISCAL DESCRIPTION

§173.030 - Reciprocity agreement for distance education

This bill makes the Coordinating Board for Higher Education (CBHE) responsible for entering into agreements for interstate reciprocity regarding the delivery of postsecondary distance education. The CBHE will have responsibility for approving or disapproving applications from postsecondary education institutions with their principal campus located in Missouri to participate in such agreements.

The CBHE must establish standards for institutional approval, including a definition of physical presence for non-Missouri institutions serving Missouri residents consistent with other states' definition of physical presence; establishment of consumer protection policies for distance education addressing recruitment, marketing activities, disclosure of tuition, fees, admission processes and procedures; and student complaints. The CBHE must establish policies for the

FISCAL DESCRIPTION (continued)

review and resolution of student complaints.

The CBHE may charge fees to any institution applying to participate in an interstate reciprocity agreement. Fees cannot exceed the Coordinating Board's cost of reviewing and evaluating the applications.

§163.191 - Community colleges

In addition to technical changes, the bill requires that beginning with fiscal year 2016, at least 90% of any increase in core funding over the previous fiscal year will be distributed in accordance with performance funding measures. Existing reporting requirements are revised to add the Governor and the Joint Committee on Education as recipients of the required quadrennial evaluation of the resource allocation model, beginning in 2019.

§173.1006 - Performance measures

This section replaces a reference to earlier performance measures with the performance measures that were developed subsequently. Each institution has selected five measures. The CBHE must evaluate and revise the measures every three years, beginning in 2019, and the DHE will evaluate the measures' effect on postsecondary and higher education goals and workforce goals and will submit a report to the Governor, Joint Committee on Education, Speaker of the House of Representatives, and President Pro Tem of the Senate every four years beginning in 2019.

§173.1540 - Four-year institutions

Each year, a public four-year institution must prepare a budget request that is submitted to the DHE for review and recommendations for appropriations. The four-year institutions must cooperatively develop and revise an increase allocation model which the department must present to CBHE for approval by October 31, 2014. The core funding base level will be the 2015 fiscal year, and increases will be incorporated into the base starting with fiscal year 2016. No more than 10% of any increase over the base will be distributed through any combination of full-time equivalency or other agreed-upon basis to address inequity and weighted full-time equivalent credit hours to provide enrollment, program offerings, and mission sensitivity. A quadrennial report on the effectiveness of the increase allocation model is required.

§178.638 - State Technical College

The State Technical College is subject to the same 90% increase allocation as the community

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FISCAL DESCRIPTION (continued)

colleges and four-year institutions starting in fiscal year 2016.

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

SOURCES OF INFORMATION

Department of Higher Education  
Department of Elementary and Secondary Education  
Joint Committee on Education  
Joint Committee on Administrative Rules  
Office of Secretary of State  
    Administrative Rules Division  
Missouri Senate  
Missouri House of Representatives  
Office of the Governor  
Colleges and Universities  
    University of Missouri System  
    Missouri Western State University  
    Missouri State University  
    University of Central Missouri  
    Linn State Technical College  
    Kansas City Metropolitan Community College  
    St. Louis Community College



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