

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1991-02
Bill No.: HCS for HB 742
Subject: Appropriations; Education, Higher; Higher Education Department
Type: Original
Date: April 18, 2005

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2006	FY 2007	FY 2008
General Revenue	(\$68,838)	(\$127,270)	(\$173,880 to Unknown)
Total Estimated Net Effect on General Revenue Fund	(\$68,838)	(\$127,270)	(\$173,880 to Unknown)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2006	FY 2007	FY 2008
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 10 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2006	FY 2007	FY 2008
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2006	FY 2007	FY 2008
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTIONS

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

Officials from the **Department of Elementary and Secondary Education (DESE)** assume the proposal would allow the newly created “Joint Committee on Higher Education” to request staff assistance from their organization, and stated the cost would be unknown but less than \$100,000. DESE officials deferred to the Department of Higher Education for an estimate of state fiscal impact.

Oversight assumes the assistance could be provided with existing resources.

In response to a previous version of this proposal, officials from the **Office of Administration, Office of the Deputy Commissioner**, assumed the proposal would have no impact on their organization.

Officials from the **Office of Administration, Division of Budget and Planning**, assume the proposal would have no impact on their organization.

ASSUMPTIONS Continued)

Officials from **Truman State University** assume the fiscal impact of the proposal on their organization is unknown.

Officials from **Southwest Missouri State University** assumed the proposal implies the restoration of state funding to the FY 2002 level, resulting in increased state support of approximately \$8.9 million per year to their organization.

Oversight assumes that any change in overall funding to higher education in general, or to specific institutions, would require specific appropriations. Oversight has not included any fiscal impact for higher education funding in this fiscal note.

Officials from the **Department of Higher Education** (DHE) assumed the proposal would have a significant unknown impact on their organization.

Officials stated the proposal would greatly increase DHE's responsibilities by adding a significant number of duties. This bill provides for the following additional duties at DHE: Review and develop proposals for state financial aid; develop and implement statewide institutional aid policies; compile and report related data; negotiate, review, and approve performance contracts; report financial impact of each performance contract; review each approved public and private institutions' operations under the performance contract; provide copies of performance contract data to the General Assembly and public; negotiate exemptions from performance contract requirements; report tuition increase proposals to the General Assembly; calculate the amount of unfunded enrollment growth at public institutions; negotiate fee for service contracts; provide certain postsecondary education services to the state or issue and monitor contracts for the delivery of the these services.

Given the scope and breadth of this proposal, a minimum of 5 FTE would be needed to carry out the duties as outlined. Three Research Associates and one Director would be assigned to a unit to accomplish all of the duties relating to the performance contracting requirements. As many of these duties pertain to both public and private institutions, this group would be responsible for all performance contracting duties for a minimum of 58 higher education institutions. One FTE Research Associate would be responsible for duties relating to development and implementation of statewide institutional aid policies and calculation of unfunded enrollment growth.

ASSUMPTIONS (continued)

Significant, but unquantifiable costs may arise from the requirement that DHE provide or contract for certain postsecondary services. If the department decides to provide these services directly, funding to provide these services would be necessary and additional staff beyond the 5 FTE requested in this fiscal note would be needed. However, if the department chooses to contract for some or all of these related services, the funding to provide these services through contract would still be necessary and some portion of an FTE would be necessary to oversee the contracts.

In addition, the fiscal impact of this legislation is further unknown since the per FTE student funding provisions will impact the future actions of the General Assembly and ultimately the state appropriations for higher education institutions.

The Department of Higher Education provided a cost estimate including the five FTE and related expenses for FY 2006 of \$282,208 to Unknown, for FY 2007 of \$308,803 to Unknown, and for FY 2008 of \$316,531 to Unknown.

Oversight has, for fiscal note purposes only, changed the starting salary for those positions to correspond to one 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 also assumes this proposal would require the Department of Higher Education to develop program components which could take several years. Oversight notes the proposal specifies that any legislative initiatives resulting from this proposal would take effect on January 1, 2008. Further, Oversight notes that some of the proposed changes to higher education funding would be contingent on restoring funding for higher education to 2002 levels. Oversight has included costs for Department of Higher Education staff beginning with the Director in FY 2006, adding one Research Associate in FY 2007 and another in FY 2008, and assumes the level of staffing requested by the Department of Higher Education would not be needed until after FY 2008.

	FY 2006	FY 2007	FY 2008
<u>FISCAL IMPACT - State Government</u>	(10 Mo.)		
<u>Cost - Department of Higher Education</u>			
Personal Service	(\$43,710)	(\$84,317)	(\$116,619)
Fringe Benefits	(\$18,647)	(\$35,969)	(\$49,750)
Expense and Equipment	(\$6,481)	(\$6,984)	(\$7,511)
Specified educational services	<u>\$0</u>	<u>\$0</u>	<u>(Unknown)</u>
Total	<u>(\$68,838)</u>	<u>(\$127,270)</u>	<u>(\$173,880 to Unknown)</u>
<u>FISCAL IMPACT - Local Government</u>	FY 2006	FY 2007	FY 2008
	(10 Mo.)		
	<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.

DESCRIPTION

This proposal would be known as the "Higher Education Student Funding Act".

Beginning August 28, 2005, the Department of Higher Education would review the feasibility of and develop proposals for consolidating existing state grant, scholarship, and related programs to simplify financial aid in order to increase participation in higher education. The proposals would include, but not be limited to, legislative proposals and department policy initiatives to produce consistent student eligibility criteria and a schedule for the phase-in of such proposals. The Department of Higher Education would ensure broad participation by stakeholders in the planning process and could request staff and other assistance from other state departments and from the research agencies of the general assembly.

ASSUMPTIONS (continued)

Financial Aid Reform

- The A+ tuition reimbursement program would be the model for delivery of financial aid for any student for the first two years of postsecondary study;
- The Gallagher student grant eligibility criteria would be the model for development of a need-based component for financial aid.
- The "Bright Flight" scholarship program would be the model for the development of a merit-based component. Consideration would be given to the creation of a system whereby a lesser, but still rigorous, ACT score qualifies a student to receive a smaller award.
- Financial aid would be portable from one institution to another within the state to the extent permitted by law.
- No form of financial aid ultimately originating from or including public funds would result in a combined offer of aid that exceeds a student's tuition, fees, book costs, and, where applicable, documented living expenses. Private institutions participating in the portability of state financial aid would undertake to comply with this subsection and would, when requested by the department of higher education, supply financial information to confirm their compliance.
- Approved public institutions would provide information with their budget request that discloses sources of aid offered by the institution from funds other than state-supplied funds. If necessary to respect the requests of donors for anonymity, generic labels could be used in reporting.
- Beginning with the effective date of FTE rate funding as defined in the proposal, twenty percent of the additional gross revenue from tuition increases at such institutions would be devoted to institutional-based financial aid, with at least seventy-five percent of the twenty percent going to need-based aid.
- The Department of Higher Education would consider institutional sources of funding for student financial aid in its determination of any proposed statewide institutional aid formula policy.

ASSUMPTIONS (continued)

- The implementation of any legislative proposals under this section would be planned to begin on July 1, 2008.
- The Department of Higher Education would report its legislative proposals to the Governor, General Assembly, and the Joint Committee on Higher Education by August 28, 2006. Each year thereafter, the department's annual report would contain measures developed by the department to track the effectiveness of financial aid reform.

Student FTE Based Funding

- The Department of Higher Education, in consultation with the approved public institutions, would annually estimate the number of full-time equivalent students at each approved public institution, based on the most recently completed school year's data. The Department of Higher Education would report the numbers during the budget cycle to the Governor and the Senate Appropriations and House Budget Committee of the General Assembly for use in developing the higher education operating appropriations act.
- For an eligible student attending an approved public institution, the FTE rate for the first two years at any institution would be an amount set annually by the general assembly, which in no case would exceed the lowest tuition charged for a full-time student at a public community college and for junior level classes and above would not exceed the lowest tuition charged for a full-time in-state student at an approved public four-year institution. The FTE rate would be the same for each eligible student at each level, regardless of the approved institution that the student attends.
- The Department of Higher Education in consultation with the approved public institutions would review annually the FTE rate established under this proposal. Following the review, the department, in consultation with the approved public institutions, would annually make recommendations regarding possible adjustments to the FTE rate to the Governor for consideration in preparing the higher education operating appropriations act. The Department of Higher Education would annually request that the General Assembly adjust the amount appropriated to reflect at least inflation and unfunded enrollment growth.

ASSUMPTIONS (continued)

- Additional funding for an approved institution would be negotiated through a fee-for-services contract under with the Department of Higher Education.

Performance Contracting

- Each approved public institution would negotiate a performance contract with the Department of Higher Education that would specify the performance goals the institution would achieve during the period that it operates under the performance contract. The term of a performance contract could be up to five years. An approved public institution's compliance with the goals specified in the performance contract could be in lieu of the requirements of individual goals previously set in conjunction with its institutional mission review and performance funding for the period of the performance contract.
- The specified procedures and goals set forth in the performance contract would be measurable and tailored to the role and mission of each institution that submits a budget request to the Department of Higher Education .
- In the case of an approved public institution capital construction would be reflected in the capital outlay appropriations bill.
- All performance contracts between the Department of Higher Education and any approved institution would be reviewed and approved by the Coordinating Board for Higher Education before the contract could become effective.
- The Department of Higher Education would report to the members of the relevant education committees of the Senate and the House of Representatives and the members of the Budget and Appropriations committees of the General Assembly the financial effect of the provisions of each performance contract with regard to funding for the affected public institution and overall funding for the statewide system of higher education, any exemptions granted, and a review of each approved public or private institution's operations under the institution's performance contract in the annual report. The Department of Higher Education could renew a performance contract at its discretion, with the agreement of the governing board.

ASSUMPTIONS (continued)

Fee-for-Service Contracts

- The Department of Higher Education could annually enter into fee-for-service contracts with one or more approved institutions to provide specified higher education services. The Department of Higher Education could contract with an approved institution only to the extent that the contract remains consistent with any performance contract.
- The Department of Higher Education would make annual funding recommendations to the General Assembly and the Governor regarding the funding necessary for the Department of Higher Education to contract on the board's behalf for the provision of higher education services in the state.

The proposal would create a joint committee of the general assembly, which would be known as the "Joint Committee on Higher Education", which would be composed of seven members of the Senate and seven members of the House of Representatives. The Senate members of the committee would be appointed by the President Pro Tem of the Senate and the House members by the Speaker of the House of Representatives. The committee could meet and function in any year that the President Pro Tem of the Senate and the Speaker of the House of Representatives appoint members to serve on the committee, but in no case would it meet less frequently than once every two years, beginning in 2006.

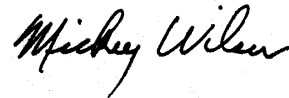
The committee would review and monitor the progress of education reform in the state's public institutions of higher education; receive reports from the Commissioner of Higher Education concerning the condition of higher education; conduct studies and analyses of the system of financing public higher education and the provision of financial aid for higher education, monitoring the progress of the changes required by this proposal; make recommendations to the general assembly for legislative action; and conduct such studies of any other education issues the committee deems relevant.

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

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SOURCES OF INFORMATION

Office of Administration
Office of the Deputy Commissioner
Department of Elementary and Secondary Education
Department of Higher Education
Southwest Missouri State University
Truman State University



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April 18, 2005