

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4760-01
Bill No.: HB 1232
Subject: Education, Higher; Department of Higher Education
Type: Original
Date: January 31, 2014

Bill Summary: This proposal establishes the Show-Me Future Program as a pilot program to replace traditional higher education tuition with a new system enabling graduates to repay higher education costs with a percentage of their income.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2015	FY 2016	FY 2017
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
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

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

Officials from the **Department of Elementary and Secondary Education** state this proposal will have no fiscal impact on their agency or on school districts.

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.

Officials from the **Office of State Treasurer** assume no fiscal impact resulting from this proposal.

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 **Department of Higher Education (DHE)** assume this proposal only requires the consideration of a pilot program by the DHE, which could be undertaken with current staff resources. If a pilot program is considered warranted, it would require additional action by the General Assembly. That action would have a substantial fiscal impact on the state.

Although the consideration of a pilot program has no fiscal impact on the DHE, the implementation of a pilot program could have a substantial impact on revenue for higher education. A pilot program that includes only one moderately priced institution from each sector could require between \$65 million and \$75 million dollars per year to replace the lost tuition.

ASSUMPTION (continued)

Estimates in Oregon, where this approach is also under study, indicate it could take as long as 15 years for the replacement process to be sufficiently funded to be sustainable without state support.

Officials from the **University of Central Missouri (UCM)** assume that admitting in-state students without requiring them to pay tuition or fees at the point of service would have profound negative fiscal and operational impacts on UCM, unless the lost revenue was compensated to UCM by the State of Missouri at the time qualifying students were admitted.

Future collection of a percentage of income from contracting students would not only be delayed, but also would obviously vary greatly depending on their level and consistency of income, the cost of collection, whether these former students moved out of state or became disabled, among other factors.

At present, students are required to pay tuition and fees during the semester in which they attend the university. Even with the present requirement for payment at the time of service, each year UCM incurs significant fiscal liability from "bad debt", meaning the amount that students promised to pay at the point of service, but did not. It is anticipated the default rate on deferred tuition would be much higher.

Officials from the **University of Missouri System** assume this bill would have a financial impact on their institutions, if passed, but it is not possible to estimate what that would be.

Officials from **Northwest Missouri State University** expect that the proposed legislation would result in significant financial risk to cash-flow the program start-up costs as well as further limit or restrict revenue streams to be dependent on a person's ability to find work and create additional stress to the institution's revenue streams during a recession when unemployment is generally high. Furthermore, it is unclear how the revenue streams in this model would align with changes in enrollment levels or could be adjusted to meet operational needs for changes in enrollment levels.

Officials from **Missouri State University** assume that if the Show-Me Future Program were implemented at their institution, it would have considerable negative fiscal impact, the extent of which cannot be quantified at this time.

Officials from **Missouri Western State University (MWSU)** assume they would experience a loss of approximately \$120 million in revenue over a three year period. MWSU would also experience a loss of Federal Student Grants of \$5 million to \$10 million over the same three year

ASSUMPTION (continued)

period and would also incur a loss of \$4 million to \$6 million in annual collection costs.

Officials from **Linn State Technical College** state the fiscal impact is unknown. They state the program could be hard to administer.

Officials from the **Kansas City Metropolitan Community College (KCMCC)** assume the proposed program would have a direct but unknown impact on their college. KCMCC would remain whole assuming the State establishes a revolving line of credit to keep them current on existing and future fees.

Officials from **St. Charles Community College (SCCC)** state they do not have enough information to quantify the fiscal impact of this proposal. Based on information provided, a negative impact could be created if SCCC participated in the pilot program. Since the students would not pay for their education while they are attending SCCC, the college would bear the expense of their education without timely remuneration. Deferring tuition payments would likely result in collection issues and expenses for the college.

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

Oversight assumes that according to DHE, the proposal only requires the consideration of a pilot program by the DHE. If DHE determines that a pilot program is considered warranted, it would require additional action by the General Assembly to implement the program. That action would have a substantial fiscal impact on the state. Oversight further assumes the language of the proposal only requires consideration of a pilot program and that implementation would only occur after further legislation.

<u>FISCAL IMPACT - State Government</u>	FY 2015 (10 Mo.)	FY 2016	FY 2017
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<u>FISCAL IMPACT - Local Government</u>	FY 2015 (10 Mo.)	FY 2016	FY 2017
	<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.

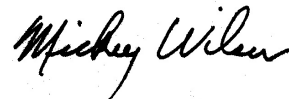
FISCAL DESCRIPTION

The proposed legislation appears to have no direct fiscal impact.

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
Department of Elementary and Secondary Education
Office of State Treasurer
 Administrative Rules Division
Office of State Treasurer
Colleges and Universities
 Linn State Technical College
 University of Central Missouri
 University of Missouri System
 Northwest Missouri State University
 Missouri State University
 Kansas City Metropolitan Community College
 St. Charles Community College
 Missouri Western State University



Mickey Wilson, CPA
Director
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Ross Strobe
Assistant Director
January 31, 2014