

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4724-01
Bill No.: HB 1865
Subject: Education, Higher; Appropriations; Boards, Commissions, Committees, Councils
Type: Original
Date: March 6, 2006

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
General Revenue *	(\$3,077,178 to Unknown)	(\$5,846,533 to Unknown)	(\$8,840,822 to Unknown)
Total Estimated Net Effect on General Revenue Fund *	(\$3,077,178 to Unknown)	(\$5,846,533 to Unknown)	(\$8,840,822 to Unknown)

* subject to appropriation

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.

This fiscal note contains 14 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2007	FY 2008	FY 2009
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

In response to a similar proposal, officials from the **Office of the Secretary of State (SOS)** stated that many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The SOS 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 SOS for Administrative Rules is less than \$1,500. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, we also recognize 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 our office can sustain with our core budget. Therefore, we reserve 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.

Officials from the **Office of Administration, Division of Budget and Planning**, the **Department of Elementary and Secondary Education**, and the **State Tax Commission** assume this proposal would have no fiscal impact on their organizations.

ASSUMPTION (continued)

Officials from **Linn State Technical College** stated they could not estimate the fiscal impact of this proposal on their organization.

Officials from the **Metropolitan Community College** assume this proposal would impose a cost of compliance on their organization estimated at \$100,000 per year.

Officials from the **Department of Higher Education** (DHE) assume this proposal would have a significant impact on the Department of Higher Education. It greatly increases the department's responsibilities by adding a significant number of duties and establishes a new scholarship program.

Section 173.195

In 2005, 24,347 Missouri high school graduates had a self-reported GPA of 2.5 or above and indicated plans to attend a Missouri 2- or 4-year institution of higher education. Since 53 percent of high school graduates meet the A+ program criteria, that reduces the eligible students to 12,903. Approximately 84 percent of Missouri high school graduates enroll in a Missouri institution, reducing our number to 10,839 eligibles. Finally, as 91 percent of students enroll full-time (at least 12 credit hours), DHE estimated there would be 9,864 eligible students.

Based on an amount of \$250 per student, the 2007-2008 academic year total is \$2,466,000. It is likely that the popularity of this program will increase with time, so DHE increased the number of eligible students by 5 percent for each subsequent year. For 2008-2009 DHE estimated 10,357 students at \$500 and a total of \$5,178,500. For 2009-2010 DHE estimated 10,875 students at \$750 and a total of \$8,156,250.

DHE estimated that one FTE Research Associate position would be needed at an estimated salary of \$35,000 plus associated expense and equipment beginning in FY 2007. This Research Associate would be responsible for overall administration of this program, including but not limited to certifying eligibility of students and working with participating institutions in order to distribute funds accurately and smoothly.

ASSUMPTION (continued)

Section 173.1000-173.1012

This proposal adds responsibilities at the Department of Higher Education: negotiate, review, and approve performance contracts; report financial impact of each performance contract; review 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 unfunded enrollment growth at public institutions; negotiate fee for service contracts; contract for certain education services to the state, and monitor the contracts for delivery of the these services.

DHE estimated that a minimum of 5 FTE would be needed to carry out the duties as outlined. Four FTE (3 Research Associates and 1 Sr. Research Associate) would be assigned to the performance contracting requirements. This group would be responsible for performance contracting duties for a minimum of 58 postsecondary campuses.

Additional unknown costs could arise from the requirement that the department contract for the delivery of certain educational services. The funding to provide these services is unknown, but would be necessary and DHE estimated that one FTE at the Research Associate level would be necessary to oversee the contracts. Additional unknown impact could also arise since the performance measure provisions for operating funding will impact the future actions of the General Assembly and ultimately the state appropriations for higher education institutions. The full funding requirement for the scholarship programs could result in a significant fiscal impact. Also, the Department of Higher Education may incur additional unknown cost responding to requests of the Joint Committee on Higher Education.

The Department of Higher Education provided an estimated cost for this proposal of \$2,807,109 to Unknown for FY 2007, \$5,553,460 to Unknown for FY 2008, and \$8,540,594 to Unknown for FY 2009.

ASSUMPTION (continued)

Oversight has, for fiscal note purposes only, changed the starting salary for the new positions to correspond to the first 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 has reflected the estimated fiscal impact of the Department of Higher Education staffing and the Section 173.195 scholarship program in the General Revenue Fund.

Oversight assumes that the cost of educational services under a performance contract could be more or less than under traditional funding for higher education services. Therefore, Oversight has not estimated a fiscal impact for the cost of performance contracting. Oversight has also not included a fiscal impact for the proposed increased funding for specific scholarship programs, nor for additional operating appropriations funding since those initiatives would require specific action by a future General Assembly.

<u>FISCAL IMPACT - State Government</u>	FY 2007 (10 Mo.)	FY 2008	FY 2009
GENERAL REVENUE FUND			
<u>Cost - Higher Education</u>			
Personal Service	(\$161,460)	(\$202,151)	(\$207,024)
Fringe Benefits	(\$71,139)	(\$89,068)	(\$91,294)
Expense and Equipment	(\$37,470)	(\$1,854)	(\$1,910)
Scholarships *	<u>(\$2,807,109 to Unknown)</u>	<u>(\$5,553,460 to Unknown)</u>	<u>(\$8,540,594 to Unknown)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND *	<u>(\$3,077,178 to Unknown)</u>	<u>(\$5,846,533 to Unknown)</u>	<u>(\$8,840,822 to Unknown)</u>
* subject to appropriation			
<u>FISCAL IMPACT - Local Government</u>	FY 2007 (10 Mo.)	FY 2008	FY 2009
	<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 make various changes regarding funding for higher education.

- A. This proposal would establish the "Access Missouri Scholarship Program". Any moneys appropriated by the general assembly for such program would be used to provide nonrenewable scholarships for Missouri residents to attend an approved institution of higher education in this state. Scholarships would be offered for any academic term beginning within twenty-four months following the date of graduation from high school to Missouri high school graduates who meet the proposal's requirements.

An applicant who had been found guilty of or pled guilty to any criminal offense or been adjudicated to have committed an offense which would constitute a criminal offense if committed by an adult would be ineligible.

The Coordinating Board for Higher Education would promulgate rules to implement the provisions of this section; prescribe the form and the time and method of awarding scholarships, supervise the processing thereof; and select qualified recipients to receive scholarships, make awards to qualified recipients, and determine the manner and method of payment on behalf of the recipient. The Commissioner of Higher Education would establish a procedure for the reimbursement of tuition and fees up to the maximum specified for any student who:

- is not eligible under the A+ program, because the program was not available through the student's high school; and
- has attended a recognized high school in this state for at least three years immediately prior to graduation; students who are dependents of active duty military personnel and all other program requirements would be exempt from the three-year attendance requirement;
- has made a good faith effort to first secure all available federal sources of funding that may be applied to the reimbursement described in this subsection; and

ASSUMPTION (continued)

- has earned a grade average consistent with the requirements of the A+ program and other requirements for including community service during high school as determined by rule of the coordinating board for higher education; or
- is eligible under the A+ program established under section 160.545, RSMo, who chooses to apply for and is admitted to an approved institution that does not participate in the A+ program.

The maximum scholarship would be two hundred fifty dollars for the 2007-08 academic year, five hundred dollars for the 2008-09 academic year, seven hundred fifty dollars for the 2009-10 academic year, and one thousand dollars for the 2010-11 academic year.

A recipient of a scholarship may transfer from one approved institution to another without losing eligibility for the scholarship. If at any time a recipient of the scholarship withdraws from an approved institution, which under the rules of such institution would entitle the student to a refund of any tuition, fees or other charges, the institution would pay the portion of the refund attributable to the scholarship for such term to the coordinating board for higher education.

The Commissioner of Higher Education would develop a procedure for evaluating the effectiveness of the program described in this section. Such evaluation would be conducted annually and provide the results of the evaluation to the Governor, the General Assembly, and the Joint Committee on Higher Education.

- B. This proposal would also create the "Higher Education Student Funding Act".

Each approved public institution, except vocational-technical schools unless otherwise specified, would be eligible to receive additional funding above the fiscal year 2001 operating budget appropriation level only upon establishment of no more than five of the following performance measures:

- Two institutional measures as negotiated by each institution through the Department of Higher Education; and
- Three statewide measures as developed by the Department of Higher Education in consultation with institutions of higher education.

ASSUMPTION (continued)

The department would report at least twice a year to the Joint Committee on Higher Education on its progress in developing the statewide measures and negotiating the institution-specific measures. The performance measures would be reflected in the performance contract of each approved public institution.

When the operating budget appropriation exceeds the fiscal year 2001 level, additional moneys would be delivered to approved public institutions in the form of aid to scholarship programs rather than institutional operating aid until full funding of the Gallagher, Guarantee, Bright Flight, A+, and Access Missouri programs is achieved except as otherwise provided.

_____ When the Gallagher, Guarantee, Bright Flight, A+, and Access Missouri programs are seventy-five percent funded, the General Assembly may adjust the amount appropriated. No further adjustment would be made until those scholarship programs are one hundred percent funded. The funding priority thereafter would be one hundred percent funding of the scholarship programs, after which time the operating budget appropriation may be increased.

The Commissioner of the Office of Administration would provide notice to the Governor, the House Budget Chair, the Senate Appropriations Chchair, the Joint Committee on Higher Education, and the Revisor of Statutes no later than November fifteenth, of each fiscal year's appropriations from the year of the enactment of this proposal to the year in which the specified appropriation levels.

Each approved public institution would negotiate a performance contract with the Department of Higher Education that specifies the performance goals the institution would achieve during the period that it operates under the performance contract. The contract would contain, at a minimum, the five measures referred to in this proposal. The term of a performance contract may be up to five years. An approved public institution's compliance with the goals specified in the performance contract would be in addition to, but evaluated separately from, the individual goals previously established in conjunction with its institutional mission review and performance funding for the period of the performance contract.

ASSUMPTION (continued)

The specified procedures and goals set forth in the performance contract would be measurable and tailored to the role and mission of each approved public institution that submits a budget request to the coordinating board, and may include, but not limited to:

- Improving residents' access to higher education;
- improving quality and success in higher education;
- improving the efficiency of its operations; and
- addressing the needs of the state.

To measure progress toward the goals specified in the performance contract, the following issues and any others deemed appropriate by the Department of Higher Education may be addressed:

- Appropriate levels of student enrollment, transfer, retention, and graduation rates;
- institutional programs specifically designed to assist students in achieving their academic and vocational goals;
- student satisfaction and student performance after graduation measured by indicators appropriate to the institutional role and mission, such as employment or enrollment in graduate programs;
- comparative cost and productivity data in relation to peer institutions;
- assessment of the quality of the institution's academic and vocational programs, including assessment by external reviewers such as accreditation boards and employers, and consideration of student performance on national examinations; and
- increasing financial support to sustain and enhance essential functions that may be partially state funded, including but not limited to the provision of need-based and other student financial aid; in the case of an approved public institution with a research mission, capital construction which would be reflected in the general assembly's capital outlay appropriations legislation;

ASSUMPTION (continued)

assessment of financial indicators compared to national benchmarks commonly used to measure financial performance in higher education according to the type of institution; and

increasing financial support to sustain and enhance the educational mission of the approved public institution and, in the case of approved public institutions with a research mission, increasing public and private research capabilities and competitiveness;

increasing enrollment of underserved students, including low-income individuals and minority groups, would be addressed in each performance contract.

The provisions of this section would not apply to any performance contract that extends into a fiscal year for which appropriations fall below the 2001 level.

Each performance contract between the Department of Higher Education and an approved public institution would be reviewed and approved by the Coordinating Board for Higher Education before the contract becomes effective.

The Department of Higher Education would report to the members of the Joint Committee on Higher Education and the members of the budget and appropriations committees of the General Assembly on the financial effect of the provisions of each performance contract with regard to funding for the affected public institution, and on overall funding for the statewide system of higher education, any exemptions granted, and a review of each institution's operations under its performance contract in the annual report. The Department of Higher Education may renew a performance contract at its discretion, with the agreement of the institution's governing board. No contract would be renewed if the goals established have not been achieved unless, in the opinion of the Department of Higher Education, extenuating circumstances were present that prevented the achievement of the established goals. The department would file with the Joint Committee on Higher Education notice of all contracts being renewed and any explanation of contracts being renewed that have not met established goals. The Joint Committee may, within sixty days after receipt of notice, by majority vote of the committee, direct the department to terminate the contract of any institution that has failed to meet established goals.

ASSUMPTION (continued)

Data collected and used to measure an approved public institution's progress towards the goals set forth in the institution's performance contract with the Department of Higher Education would be made available to the members of the Joint Committee on Higher Education and members of the Budget and Appropriations Committees, and each approved public institution covered by a performance contract. The Department of Higher Education would also provide copies of the data to other members of the General Assembly and members of the public on request.

While operating under a performance contract, an approved public institution:

- May at the request of its governing board, request the Governor to appoint additional advisory members to the governing board to sustain and enhance the role and mission of the institution. Additional members of the governing board would serve as nonvoting members of the board and would serve without compensation. The role of the advisory members would be to improve the governing board's opportunities to develop and enrich the academic and research programs at the approved public institution and;
- would report to the Coordinating Board for Higher Education its plans for any tuition increases for the following academic year for the board to forward to the general assembly during the budget process; and
- would remain eligible for state-funded capital construction projects and maintenance projects through the budget process.
- Approved public institutions, including vocational-technical schools, may achieve eligibility for additional state moneys by the establishment of institutional fee-for-services contracts under this section. Approved private institutions may participate in fee-for-services contracts when the Coordinating Board for Higher Education determines that the best interests of students can be effectively met through such contractual arrangements.

ASSUMPTION (continued)

- Beginning July 1, 2007, an approved institution could negotiate an annual fee-for-services contract with the department for the delivery of higher education services by the approved institution to the residents of the state. An institution that enters into a fee-for-service contract for basic skills courses, could not charge a student more for a basic skills course than the student would otherwise pay per credit hour for any general education course offered at the same institution.
- Beginning July 1, 2007, the Coordinating Board for Higher Education would be responsible for ensuring the provision of certain postsecondary educational services to underserved areas in the state. The department may enter into annual fee-for-service contracts with one or more approved institutions to provide the higher education services specified. Such educational services would include but not be limited to educational services in rural areas or communities in which the cost of delivering such services is not sustained by the amount received in student tuition; basic skills courses, which are prerequisites to the level of work expected at a postsecondary institution and include academic skills courses and preparatory courses; educational services required of the coordinating board to meet its obligations under reciprocal agreements; and educational services that may increase economic development opportunities in the state, including courses to assist students in career development and retraining.
- The Department of Higher Education could renew a fee-for-services contract at its discretion, with the agreement of the institution's governing board. No contract would be renewed if the measurements established have not been achieved, except if, in the opinion of the Department of Higher Education, extenuating circumstances were present that prevented the achievement of the established measurements. The Department would file with the Joint Committee on Higher Education notice of all fee-for-services contracts being renewed and any explanation of contracts being renewed that have not met established measurements. The Joint Committee may, within sixty days after receipt of notice, by majority vote, direct the department to terminate any contract that has failed to meet established measurements.

ASSUMPTION (continued)

- Data collected and used to measure an institution's performance on its fee-for-services contract with the Department of Higher Education would be made available to the members of the Joint Committee on Higher Education and members of the Budget and Appropriations Committees. The Department of Higher Education would also provide copies of the data to other members of the general assembly and members of the public on request.
 - The Coordinating Board 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, including but not limited to the services specified.
- C. No student enrolled in an approved public or private institution of higher education in this state, as defined in section 173.205, could receive financial assistance funded in whole or in part with public moneys which results in financial assistance that exceeds the student's cost for tuition, fees, books, and where applicable, room and board provided at the institution. Approved private institutions would be required to comply with the provisions of this section and shall, upon request by the Department of Higher Education, provide financial information to the department to determine compliance with the requirements of this section.
- D. The proposal would establish a joint committee of the General Assembly which would be known as the "Joint Committee on Higher Education", 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 and Minority Leader of the Senate and the House members by the Speaker and Minority Leader of the House of Representatives. 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 analysis of the system of financing public higher education and the provision of financial aid for higher education,

ASSUMPTION (continued)

- have oversight of the establishment of performance measures and report on their establishment to the Governor, the General Assembly, and to the Joint Committee on Education;
- make recommendations to the General Assembly for legislative action; and
- conduct such studies of any other education issues the committee deems relevant.

The committee may make reasonable requests for staff assistance from the research and appropriations staffs of the House and Senate and the Committee on Legislative Research, as well as the Department of Elementary and Secondary Education, the Department of Higher Education, the Coordinating Board for Higher Education, the State Tax Commission, all public institutions of higher education, and such private higher education institutions and business and other commercial interests and any other interested persons as may be required.

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

Office of Administration
Division of Budget and Planning
Department of Elementary and Secondary Education
Department of Higher Education
State Tax Commission
Linn State Technical College
Metropolitan Community College



Mickey Wilson, CPA
Director
March 6, 2006