COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0542-01
Bill No.: HB 264
Subject: Education, Higher; Higher Education Department
Type: Original
Date: February 4, 2005

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2006	FY 2007	FY 2008
Total Estimated Net Effect on General Revenue Fund	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2006	FY 2007	FY 2008
Total Estimated Net Effect on Other State Funds	**$0**	**$0**	**$0**

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 6 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2006	FY 2007	FY 2008
Total Estimated Net Effect on All 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 **Department of Higher Education** (DHE) assume this proposal would have no direct fiscal impact on the DHE, provided the DHE is not required to perform any duties pursuant to this legislation. On average in FY 2004, public higher education institutions in Missouri received 41 percent of their total estimated Unrestricted Education and General Revenues from tuition and fees. Higher education institutions' inability to increase tuition could result in a negative impact on state funding as an increase in state resources would be required to maintain current expenditure levels. Also, this legislation may negatively impact certain private and proprietary institutions since students attending private and proprietary institutions receive state funding in the form of state grant and scholarship dollars. This legislation could have a significant but unquantifiable negative impact on higher education institutions and state funding.

Officials from **Linn State Technical College** assume this proposal would result in a revenue reduction of $475,000 in FY 2006, $493,500 in FY 2007, and $526,750 in FY2008.

Officials from **Metropolitan Community Colleges** assume this proposal would result in a revenue reduction of approximately $1.8 million per year once fully phased in.

ASSUMPTIONS (continued)

Officials from the **University of Missouri** (UM) stated that UM currently assesses a single per credit hour rate by student level (undergraduate and graduate) and by residency (resident and nonresident) plus supplemental fees for enrollment in certain courses and academic programs. Professional school students are assessed based upon their program and residency. For some programs this is a flat semester fee, while others are per credit hour fees. These fees are set and approved each year and go into effect with the summer semester.

Different rates for each entering class of students would multiply student administration and billing costs exponentially. Students would have to be assessed based upon their individual start date as well as course and academic program. The normal pattern for graduation is closer to six years than four years. UM assumes the approved methodology for determining institutional graduation rates would be based on six years from date of initial enrollment. For undergraduate enrollments alone, this would result in as many as six different rates for the base educational fee and six different rates for each of the supplemental fees during an academic year.

There are significant costs associated with administering such a billing system in staff time, effort, and required modifications to the student information and billing system. The current billing system and the student information and billing system currently being implemented are not able to accommodate a structure of this complexity. UM is unaware of any software currently available that would accommodate such a billing structure, resulting in the costly development and maintenance of a system.

The impact of this legislation is unclear on nontraditional students who do not plan to complete a degree program in four or six years. Many of our students do not have continuous enrollment patterns.

Currently when the University's state funding is reduced or extraordinary cost issues arise student fees are increased uniformly across student levels and academic programs to accomplish equilibrium. Tuition locks would result in the increased costs falling disproportionately on the entering class and the entering class of students subsidizing returning students to balance the budget. For example, had the University increased educational fees for the current year solely for incoming students while shielding previously enrolled students, new students would have had to pay roughly $9,000 a year, while previously enrolled students would have paid roughly $6,000 per year.

ASSUMPTIONS (continued)

Officials from **Lincoln University** assume the proposal would lead to a complex billing structure that would be difficult to maintain. Costs, in general, are rising each year and state funding is not keeping pace. By freezing tuition rates in this manner, the University would be restricted in maximizing its tuition revenue sources to help meet its financial needs. The burden of rising costs would not be equally shared by all students but rather would be tiered.

Officials from **Central Missouri State University** assume the only class we would be allowed to raise fees on would be the freshmen class. The fee increase for that class would be considerably more than spreading it out over the whole student population. In a year when we had an appropriation base cut of $6 million we would have had to raise fees over $100 per student credit hour just to cover the reduction in state appropriations.

This calculation does not even take into consideration that fees on entering freshmen would have to be inflation indexed for a four year period. If there are no new state appropriations we would start the fiscal year with an immense deficit. If there are base cuts the situation becomes even worse. If we raise fees for new freshmen enough to simply cover the costs of doing business it is obvious we would price ourselves out of the market.

Officials from **Truman State University** assume the proposal would require modification of computer software programs to handle multiple fee schedules for students who entered the institution at different points in time. It is difficult to estimate this cost and the increased administrative costs in University offices such as Financial Aid and the Registrar. The proposal would require institutions to project both cost increases for four years and levels of state support four years in the future. This could result in tuition rates which are either too high or too low to meet actual costs in future years. Additional costs are also anticipated due to students appealing the tuition rate they are being charged, as some students enter college in the spring and summer semesters in addition to the large group each fall.

Officials from **Moberly Area Community College** assume this proposal would result in a revenue reduction from $150,000 to $350,000 per year. In addition, costs of $50,000 to $750,000 would be required to upgrade our software to implement this billing arrangement.

Officials from **Missouri Western State College** assume this proposal would result in a revenue reduction from $1.5 million to $2.0 million annually.

ASSUMPTIONS (continued)

Oversight assumes this proposal would result in significant but unknown negative fiscal impact to the higher education organizations. Since the proposal would become effective as of August 28, 2005, the first impact would be at the beginning of the second semester of the academic year ending June 30, 2006 (state FY 2007). The impact would increase each semester after that, if higher education institutions were unable to compensate for higher costs by increasing tuition and fees. Oversight assumes the institutions would adopt a number of measures to comply with the proposal's requirements which can not be forecast at this time. Oversight has not shown any impact to the state General Revenue Fund since this proposal would not require any change to the budget, appropriation, or expenditures for any state agency or fund.

FISCAL IMPACT - State Government	FY 2006 (10 Mo.)	FY 2007	FY 2008
	$0	**$0**	**$0**

FISCAL IMPACT - Local Government	FY 2006 (10 Mo.)	FY 2007	FY 2008
	$0	**$0**	**$0**

FISCAL IMPACT - Small Business

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

DESCRIPTION

This proposal would freeze tuition rates from the time Missouri undergraduates enter college until they graduate.

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
Linn State Technical College
Metropolitan Community Colleges
University of Missouri
Lincoln University
Central Missouri State University
Truman State University
Moberly Area Community College
Missouri Western State College

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