HCS HB 742 -- HIGHER EDUCATION STUDENT FUNDING ACT

SPONSOR: Bearden

COMMITTEE ACTION: Voted "do pass" by the Committee on Higher Education by a vote of 8 to 2.

This substitute changes the laws regarding state funding of higher education. By August 28, 2006, the Department of Higher Education is required to do a study of financial aid programs recommending necessary changes to the law for the 2007 legislative session for implementation by July 1, 2008, and report the results to the Governor, General Assembly, and Joint Committee on Higher Education. The review assumes, but does not mandate, that the A+ Program will be a model for the first two years of any financial aid program, with Bright Flight as the model for a merit-based component and the Gallagher Program as the model for need-based aid. Aid should be portable, and no combination of forms of aid that contains state aid can result in more than the actual costs. Public institutions must disclose the amount of aid coming from non-state sources. When per-student funding becomes effective, 20% of any additional revenues must be directed to increased financial aid, with 75% of that amount going to need-based aid.

Beginning July 1, 2006, the Coordinating Board for Higher Education will provide certain services through fee-for-services contracts, including services in rural areas, delivery of basic courses prerequisite for post-secondary work, services needed to meet reciprocal agreements, and services to increase economic development opportunities. These contracts will not increase the per-student reimbursement rate and must be consistent with performance contracts. The board will make funding recommendations that take fee-for-service contracts into account.

When state higher education operating appropriations reach their Fiscal Year 2002 level, public institutions will qualify for additional funding only if they establish performance measures; establish performance contracts predicated on the performance measures; and, where applicable, establish fee-for-services contracts for non-self-supporting programs. The substitute contains instructions for notice to the Revisor of Statutes of the fulfillment of contingencies.

Upon the substitute’s effective date, higher education services to students will be reimbursed by the state at a rate per student for the first two years and a different rate for the second two years, as established by the board in conjunction with the institutions. The first two-years’ rate will be no more than the lowest community college tuition and required fees, and the second two-years’ rate will be no more than the lowest tuition and required fees charged at a public four-year institution. The board will annually request additional funding for inflation and

for unfunded enrollment growth, as specified in the substitute.

Performance contracts of up to five years, based on improving access, quality, efficiency, and addressing state needs, must be entered into by public higher education institutions and by any qualified private institution providing services under a fee-for-services contract. Performance contracts will exempt an institution from certain purchasing regulations. Proposed tuition increases must be reported to the board.

The substitute also establishes the Joint Committee on Higher Education with 14 members, to meet at least every two years, beginning in 2006. The committee will review the progress of higher education reform and conduct studies, as it deems necessary, on higher education finance in order to make recommendations to the General Assembly.

FISCAL NOTE: Estimated Cost on General Revenue Fund of $68,838 in FY 2006, $127,270 in FY 2007, and $173,880 to Unknown in FY 2008. No impact on Other State Funds in FY 2006, FY 2007, and FY 2008.

PROPONENTS: Supporters say that higher education institutions have no built-in mechanism to ensure that the majority of increased revenues go to instruction. The bill puts in place a time line and a mechanism for higher education moneys to be directed primarily towards students. It frees institutions from some requirements, putting additional moneys beyond the base level on a performance contract or fee-for-service basis.

Testifying for the bill were Representative Bearden; American Legislative Exchange Council; and Charles Stodtland.

OPPONENTS: There was no opposition voiced to the committee.

OTHERS: Others testifying on the bill say that the intent of it is admirable and coincides with some higher education initiatives that are already underway, but it will take more study and effort to develop the concept. It would be preferable to give institutions flexibility in identifying their own performance measures. The per-student rate funding proposal does not mesh well with the variety of institutional missions already established or with the requirements imposed by accreditors.

Others testifying on the bill were Department of Higher Education; University of Missouri; and Council on Public Higher Education.

Becky DeNeve, Senior Legislative Analyst