

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 5049-01
Bill No.: HB 1390
Subject: Education, Higher; Higher Education Department; Boards, Commissions,
Committees, Councils; General Assembly
Type: Original
Date: January 27, 2014

Bill Summary: This proposal requires the cooperative development of a resource allocation model that incorporates performance funding for public institutions of higher education.

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
Higher Education Funds*			
Total Estimated Net Effect on <u>Other</u> State Funds*	\$0	\$0	\$0

* Increases or decreases to 4-year public colleges and universities would net out to zero.

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

***Increases or decreases to two-year public colleges would net out to zero.**

FISCAL ANALYSIS

ASSUMPTION

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.

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 **Joint Committee on Education** state there will be no cost to their agency associated with this proposed legislation.

Officials from the **Department of Higher Education** state an assumption of no fiscal impact is based on the fact that this is solely a distribution or allocation model and does not imply or require a specific level of funding. Its only purpose is to distribute the new funds provided through the appropriation process to each institution. Although some staff time will be required to comply, most of the primary development and implementation tasks have already been completed.

Officials from the **University of Central Missouri (UCM)** provided the following response:

Although UCM supports the performance funding concept, UCM believes there would be a negative financial impact on their institution if there is no provision which would take into account funds previously assigned to an institution based on an approved specific mission,

ASSUMPTION (continued)

provided that mission is still in effect.

With regard to the adoption of performance measures, there could be a negative fiscal impact on UCM if the measures and/or the methods of assessments that are adopted increase the chances of institutions receiving funds on most if not all elements, whether it is "deserved" or not. For example, improvement is always good but may not warrant performance funding if the performance does not meet some minimal level. Going from a 19% six-year graduation rate to a 20% rate is improvement but not necessarily deserving of performance funding. In contrast, another university that has a 55%, six-year graduation rate, but slips to 54%, may lose performance funding even though its six-year graduation rate is far superior.

In the absence of a common sampling method, there is potential for selection bias to operate and allow an institution to qualify for funding even though the results are based on a restricted or selective sample.

Officials from **Missouri Western State University** assume there is a potential loss in revenue on the basis of failure to meet performance standards. Based on past allocations, losses in appropriation as a result of missed standards could be between \$200,000 and \$400,000 per missed performance standard annually.

Officials from **Missouri State University** assume this proposed legislation would have a fiscal impact on their institution, but the extent cannot be quantified at this time.

Officials from **Linn State Technical College** state the fiscal impact is unknown.

Officials from **Kansas City Metropolitan Community College** assume the bill could have a significant but unknown impact on their college.

Officials from **St. Louis Community College** assume no fiscal impact.

Oversight assumes the proposal could affect public colleges and universities with the proposed re-allocation of ten percent of funding. Although the amount of funding as a whole would not change, individual institutions could see either an increase, decrease, or no change in funding depending on the ten percent allocation of funding described in the proposal.

Officials from the following colleges and universities: Crowder, East Central Community College, Harris-Stowe, Jefferson College, Lincoln University, Moberly Area Community

ASSUMPTION (continued)

College, Missouri Southern State University, Northwest Missouri State University, Southeast Missouri State University, State Fair Community College, St. Charles Community College, Three Rivers Community College, Truman State University, and the University of Missouri System did not respond to **Oversight's** request for fiscal impact.

<u>FISCAL IMPACT - State Government</u>	FY 2015 (10 Mo.)	FY 2016	FY 2017
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HIGHER EDUCATION FUNDS

<u>Transfer In</u> - Four-year Colleges and Universities - Increased funding based on performance measures (§173.1540)	\$0	Unknown	Unknown
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<u>Loss of Funding</u> - Four-year Colleges and Universities - Decreased funding based on performance measures (§173.1540)	<u>\$0</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
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ESTIMATED NET EFFECT ON HIGHER EDUCATION FUNDS	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
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<u>FISCAL IMPACT - Local Government</u>	FY 2015 (10 Mo.)	FY 2016	FY 2017
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LOCAL POLITICAL SUBDIVISIONS

<u>Transfer In</u> - Two-year Colleges - Increased funding based on performance measures (§163.191)	\$0	Unknown	Unknown
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<u>Loss of Funding</u> - Two-year Colleges - Decreased funding based on performance measures (§163.191)	<u>\$0</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
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ESTIMATED NET EFFECT ON LOCAL POLITICAL SUBDIVISIONS	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
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FISCAL IMPACT - Small Business

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

FISCAL DESCRIPTION

This bill establishes procedures for directing the allocation of additional core funding over the fiscal year 2015 level for public higher education institutions.

§163.191 - COMMUNITY COLLEGES

In addition to technical changes, the bill requires that beginning with fiscal year 2016, at least 90% of any increase in core funding over the previous fiscal year will be distributed in accordance with performance funding measures. Existing reporting requirements are revised to add the Governor and the Joint Committee on Education as recipients of the required quadrennial evaluation of the resource allocation model, beginning in 2019.

§173.1006 - PERFORMANCE MEASURES

This section replaces a reference to earlier performance measures with the performance measures that were developed subsequently. Each institution has selected five measures. The Coordinating Board for Higher Education (CBHE) must evaluate and revise the measures every three years, beginning in 2019, and the Department of Higher Education (DHE) will evaluate the measures' effect on postsecondary and higher education goals and workforce goals and will submit a report to the Governor, Joint Committee on Education, Speaker of the House of Representatives, and President Pro Tem of the Senate every four years beginning in 2019.

§173.1540 - FOUR-YEAR INSTITUTIONS

Each year, a public four-year institution must prepare a budget request that is submitted to the DHE for review and recommendations for appropriations. The four-year institutions must cooperatively develop and revise an increase allocation model which the department must present to CBHE for approval by October 31, 2014. The core funding base level will be the 2015 fiscal year, and increases will be incorporated into the base starting with fiscal year 2016. No more than 10% of any increase over the base will be distributed through any combination of full-time equivalency or other agreed-upon basis to address inequity and weighted full-time equivalent credit hours to provide enrollment, program offerings, and mission sensitivity. A quadrennial report on the effectiveness of the increase allocation model is required.

FISCAL DESCRIPTION (continued)

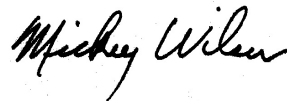
§178.638 - STATE TECHNICAL COLLEGE (178.638)

The State Technical College is subject to the same 90% increase allocation as the community colleges and four-year institutions starting in fiscal year 2016.

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 Education
Joint Committee on Administrative Rules
Office of Secretary of State
 Administrative Rules Division
Colleges and Universities
 Missouri Western State University
 Missouri State University
 University of Central Missouri
 Linn State Technical College
 Kansas City Metropolitan Community College
 St. Louis Community College



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January 27, 2014

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January 27, 2014