

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 5325-01
Bill No.: HB 2098
Subject: Education, Higher
Type: Original
Date: January 29, 2016

Bill Summary: This proposal prohibits public institutions of higher education in this state from requiring students to live in residence halls on campus.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
Total Estimated Net Effect on General Revenue	\$0	\$0	\$0

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
College & University	(Could exceed \$10,000,000)	(Could exceed \$10,000,000)	(Could exceed \$10,000,000)
Total Estimated Net Effect on <u>Other</u> State Funds	(Could exceed \$10,000,000)	(Could exceed \$10,000,000)	(Could exceed \$10,000,000)

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 7 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
Total Estimated Net Effect on FTE	0	0	0

☒ Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$100,000 in any of the three fiscal years after implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2017	FY 2018	FY 2019
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Oversight notes this proposal would prohibit higher education institutions from requiring students to live on campus. Oversight notes that most institutions require students to live on campus for the student's first two years. Oversight is unable to determine how many students would give up living in a residential hall if this proposal passed. Oversight will show the direct impact as could exceed \$10 million the estimate provided by the institutions for the loss of the housing payment.

Officials at the **Department of Higher Education** assume there is no fiscal impact to their agency from this proposal.

Officials at the **University of Missouri** assume that although, the University has a general policy that encourages freshmen to live on campus, we do not require it in cases where a student or their parents would prefer to live off campus. We have significant data that shows students, particularly freshmen, who live on campus have a much higher success rate than those who choose to live off campus. Because of this, it would be challenging to determine the fiscal impact this bill would have given that we have not rigidly enforced this policy.

The University has \$410 million in debt service (revenue bonds) with additional projects under consideration. Our ability to meet our debt service commitments is based on stable occupancy. Any actions that would affect our occupancy, could negatively affect our debt service commitments.

Officials at the **University of Central Missouri (UCM)** assume through long experience, corroborated by many national studies, shows that campus living does much to ensure student retention and success. For this reason UCM has invested heavily, and continues to invest in on-campus housing. In addition to a long-standing requirement that full-time freshman students live on campus, UCM initiated in fall 2013 a requirement that sophomore students also live in residence halls. Because this is a measure designed to support younger students, students over 21, married students, upper-class transfer students, and active military students are exempted. The advantage to younger students of living on campus is reflected in UCM's retention rates for the academic year 2014-2015; the percentage of first year students returning to UCM who lived in residence halls was 71.30%, compared to only 62.74% who did not live on campus.

In addition, it is important to note that University Housing, which is responsible for all campus housing, functions as an auxiliary, charging student housing fees sufficient to cover the costs of maintaining and replacing student residential buildings and furnishings to provide adequate and

ASSUMPTION (continued)

comfortable accommodations for students. The University funds the cost of residence life construction through revenue bonds repaid through housing fees; its current related debt outstanding is \$50 million.

While it is not possible to predict how many freshman and sophomore students would choose to live off campus if that option were available, the potential for lost housing revenue is significant. UCM houses approximately 3,500 students in on-campus university housing. UCM estimates the mandatory change in University housing policy outlined in this proposal could result in approximately 25% fewer students living in university housing, which would result in \$5.2 million annually in lost revenue, plus the drop in enrollment due to the resulting decrease in retention rate, which translates to an estimated additional \$4 million in lost tuition and fees.

Officials at the **Missouri Southern State University** assume residence hall requirements for first-year students assist these students in the transition from high school to college. Various studies have shown that living on campus shows increases in the probability of these students remaining enrolled into the second year of college (3.3 to 10 percentage points higher for on-campus residents than off-campus residents). In addition, studies of residence hall students compared to on- residence hall students estimate that living on campus can account for higher grades (between one-fifth to one full letter grade).

Residence life facilities are generally operated as enterprises that must sustain themselves from the revenues generated. It is common for the construction of residence life facilities to be funded by revenue bonds. It is imperative that the operation generate sufficient revenue to fund the bonds and all other operating costs associated with the operation. Requiring certain groups of students to live in the residence life facility helps guarantee that sufficient revenue is produced to sustain the operation. Since it is difficult to determine how many students would leave the residence halls the impact of this proposal is unknown at this time.

Officials at the **Missouri Western State University** assume this proposal would have a severe financial impact. The University would lose their auxiliary system revenue, which would lead to them not making their bond payment and therefore not meeting their bond covenant. Additionally, based on housing revenue for the FY 2015-2016 the University estimates the potential loss of revenue to be 60% of our freshman base totaling \$3,915,543 with the potential to increase our losses significantly each year, also affecting retention rates.

Officials at the **Missouri State University** assume this would be a negative impact of \$12-\$15 million annually.

ASSUMPTION (continued)

Officials at the **Northwest Missouri State University** assume the impact to be \$1,750,000 annually. This proposal would cause the University to violate the bond debt covenant and negatively impact the ability of the University to make annual debt payments.

Officials at the **Truman State University** assume the University currently has \$52.3 million in outstanding bonds which were utilized to renovate residence halls. As a residential campus, a first-year requirement to live on-campus is required. Exceptions are made for commuters and those living with close relatives. Passage of this proposal could lead to default on the housing bonds, most likely within 3-4 years.

Officials at the **State Technical College of Missouri** assume there is no fiscal impact from this proposal.

Oversight notes that the institutions require students that live on campus to have a dining plan. It can be assumed that if the students would no longer live on campus they would no longer need their dining plan. In a proposal this year (HB 2099) suggesting that dining plans not be required, the institutions assumed a loss of over \$10,000,000 for the dining payments.

Additionally, the institutions expressed concern that their bond payments are based on full occupancy of the residential halls. It is possible that if many students give up living in the residential halls that this could have an impact on the dining plans and the bond payments. However, **Oversight** considers these to be indirect impacts of the proposal and will not indicate an impact in the fiscal note.

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

<u>FISCAL IMPACT - State Government</u>	FY 2017 (10 Mo.)	FY 2018	FY 2019
COLLEGE & UNIVERSITY FUNDS			
<u>Loss - Residential Hall payments</u>	(Could exceed <u>\$10,000,000</u>)	(Could exceed <u>\$10,000,000</u>)	(Could exceed <u>\$10,000,000</u>)
ESTIMATED NET EFFECT ON COLLEGE & UNIVERSITY FUNDS	(Could exceed <u>\$10,000,000</u>)	(Could exceed <u>\$10,000,000</u>)	(Could exceed <u>\$10,000,000</u>)
<u>FISCAL IMPACT - Local Government</u>	FY 2017 (10 Mo.)	FY 2018	FY 2019
	<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.

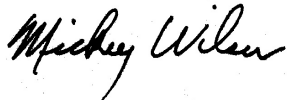
FISCAL DESCRIPTION

This proposal prohibits public institutions of higher education from requiring students to live on campus.

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
Missouri Southern State University
Missouri State University
Missouri Western State University
Northwest Missouri State University
State Technical College of Missouri
Truman State University
University of Central Missouri
University of Missouri

A handwritten signature in black ink that reads "Mickey Wilson". The signature is written in a cursive, flowing style.

Mickey Wilson, CPA
Director
January 29, 2016

Ross Strobe
Assistant Director
January 29, 2016