

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 2600H.01I
Bill No.: HB 1346
Subject: Education, Higher; Higher Education and Workforce Development, Department of
Type: Original
Date: March 17, 2021

Bill Summary: This proposal establishes procedures for determining funding allocations for institutions of higher education based on workforce readiness of students.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2022	FY 2023	FY 2024
Total Estimated Net Effect on General Revenue	\$0	\$0	\$0

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2022	FY 2023	FY 2024
University Funds*	\$0	\$0	\$0
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

* Revenue gain and loss net to zero.

Numbers within parentheses: () indicate costs or losses.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2022	FY 2023	FY 2024
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2022	FY 2023	FY 2024
Total Estimated Net Effect on FTE	0	0	0

- ☐ Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$250,000 in any of the three fiscal years after implementation of the act or at full implementation of the act.
- ☐ Estimated Net Effect (savings or increased revenues) expected to exceed \$250,000 in any of the three fiscal years after implementation of the act or at full implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2022	FY 2023	FY 2024
Local Government*	\$0	\$0	\$0

* Revenue gain and loss net to zero.

FISCAL ANALYSIS

ASSUMPTION

Officials from **Department of Higher Education and Workforce Development (DHEWD)** assume the proposal will have no fiscal impact on their organization.

This bill proposes a multifaceted formula for distributing state appropriations to public colleges and universities. The proposed formula would be based on a combination of the mean earnings of previously enrolled students (not just completers) compared to a threshold intended to approximate earnings for high school graduates, and the enrollment and earnings of Pell students, all weighted to total full-time equivalent enrollment. Earnings would be short-term (six years) and long-term (ten years) after graduation for all students and Pell recipients. The formula would phase in until 2028, when it would determine 100 percent of core funding. All previous metrics and performance funding statutes would be superseded.

Strictly speaking, the formula would have “No Impact” on total state appropriations to the institutions, because it includes no direction about total funding or year-to-year change. The end product is an allocation share of funding within sectors, however, and it would potentially make significant changes for individual institutions.

DHEWD staff applied the formula to the extent possible with available data to FY 2020 core appropriations.

If fully implemented today, among two-year institutions, the formula, if 100 percent implemented, would have resulted in an 84.9 percent increase in funding for State Technical College, a 77.5 percent increase for St. Charles Community College, and a 40.7 percent increase for Ozarks Technical Community College. St. Louis Community College’s total appropriation would have decreased 37.1 percent, and Mineral Area College by 26.2 percent, with the others between. Among the universities, the University of Missouri would increase by 12.4 percent, Missouri State University by 6.8 percent, and all others would have declined, including Harris-Stowe State University by 65.0 percent and Lincoln University by 68.2 percent.

FY20 core appropriations and percent change and funding allocations based on HB 1346 when fully implemented are as follows:

Institutions	FY 20 Core Appropriations	% Change Based on HB 1346 Formula	Funding Allocation Based on HB 1346 Formula
Public 4 Year			
Harris-Stowe State University	\$ 9,144,776	-65.0	\$ 3,196,872
Lincoln University	\$ 19,248,432	-68.2	\$ 6,118,280
Missouri Southern State University	\$ 20,990,243	-8.1	\$ 19,290,988
Missouri State University (including West Plains)	\$ 82,118,696	6.8	\$ 87,676,601
Missouri Western State University	\$ 19,443,162	-5.0	\$ 18,462,102
Northwest Missouri State University	\$ 27,254,860	-14.3	\$ 23,353,332
Southeast Missouri State University	\$ 40,097,463	-4.7	\$ 38,212,986
Truman State University	\$ 36,417,660	-33.5	\$ 24,218,726
University of Central Missouri	\$ 48,372,172	-22.3	\$ 37,562,336
University of Missouri (all four campuses)	\$ 363,946,981	12.4	\$ 408,942,222
Public two-year colleges			
Crowder College	\$ 5,011,525	4.7	\$ 5,246,861
East Central College	\$ 4,702,770	-6.4	\$ 4,402,271
Jefferson College	\$ 6,851,235	6.2	\$ 7,278,294
Metropolitan Community College	\$ 27,516,814	-8.0	\$ 25,302,597
Mineral Area College	\$ 4,954,988	-26.2	\$ 3,656,949
Moberly Area Community College	\$ 5,490,989	30.7	\$ 7,176,911
North Central Missouri College	\$ 2,332,064	24.8	\$ 2,910,329
Ozarks Technical Community College	\$ 12,579,214	40.7	\$ 17,695,064
St. Charles Community College	\$ 7,943,206	77.5	\$ 14,101,920
St. Louis Community College	\$ 37,753,246	-37.1	\$ 23,744,556
State Fair Community College	\$ 5,403,204	0.3	\$ 5,421,662
State Technical College of Missouri	\$ 5,261,291	84.9	\$ 9,727,954
Three Rivers College	\$ 4,589,203	-18.8	\$ 3,724,380

DHEWD also applied the formula considering St. Louis Community College and Ozarks Technical Community College as four-year institutions, since the Coordinating Board for Higher Education approved both in March 2021 to offer a single bachelor's degree. As written now, HB 1346 defines a "state-funded two-year institution" to be a higher education entity that receives state funding and "offers no degree higher than an associates' degree." In this model, the formula resulted in a 66.4 percent increase in funding for State Technical College, a 59.8 percent increase for St. Charles Community College, and a 17.6 percent increase for Moberly Area Community College. Among four-year institutions, Ozarks Technical Community College increased 133.8 percent, and the University of Missouri increased 9.2 percent. Harris-Stowe State University declined by 66.0 percent, and Lincoln University by 69.1 percent, and Truman State University by 35.3 percent. For this exercise, DHEWD also shifted the community colleges' (St. Louis Community College and Ozarks Technical Community College) FY 2020 core appropriations to the four-year sector.

FY20 core appropriations and percent change and funding allocations based on HB 1346 when fully implemented (including St. Louis Community College and Ozarks Technical Community College under the four-year sector) are as follows:

Institutions	FY 20 Core Appropriations	% Change Based on HB 1346 Formula	Funding Allocation Based on HB 1346 Formula
Public 4 Year			
<i>Ozarks Technical Community College</i>	\$ 12,579,214	133.8	\$ 29,416,072
<i>St. Louis Community College</i>	\$ 37,753,246	4.6	\$ 39,472,678
Harris-Stowe State University	\$ 9,144,776	-66.0	\$ 3,107,938
Lincoln University	\$ 19,248,432	-69.1	\$ 5,948,075
Missouri Southern State University	\$ 20,990,243	-10.7	\$ 18,754,330
Missouri State University (including West Plains)	\$ 82,118,696	3.8	\$ 85,237,518
Missouri Western State University	\$ 19,443,162	-7.7	\$ 17,948,503
Northwest Missouri State University	\$ 27,254,860	-16.7	\$ 22,703,664
Southeast Missouri State University	\$ 40,097,463	-7.4	\$ 37,149,935
Truman State University	\$ 36,417,660	-35.3	\$ 23,544,983
University of Central Missouri	\$ 48,372,172	-24.5	\$ 36,517,386
University of Missouri (all four campuses)	\$ 363,946,981	9.2	\$ 397,565,822
Public two-year colleges			
Crowder College	\$ 5,011,525	-5.8	\$ 4,722,303
East Central College	\$ 4,702,770	-15.7	\$ 3,962,152
Jefferson College	\$ 6,851,235	-4.4	\$ 6,550,643
Metropolitan Community College	\$ 27,516,814	-17.2	\$ 22,772,955
Mineral Area College	\$ 4,954,988	-33.6	\$ 3,291,343
Moberly Area Community College	\$ 5,490,989	17.6	\$ 6,459,395
North Central Missouri College	\$ 2,332,064	12.3	\$ 2,619,368
St. Charles Community College	\$ 7,943,206	59.8	\$ 12,692,073
State Fair Community College	\$ 5,403,204	-9.7	\$ 4,879,629
State Technical College of Missouri	\$ 5,261,291	66.4	\$ 8,755,396
Three Rivers College	\$ 4,589,203	-27.0	\$ 3,352,033

Again, DHEWD staff applied the formula with the best available data in the limited time available for review. At present, DHEWD can identify only Pell-eligible, not Pell-recipient students, although there would presumably be significant overlap. DHEWD also only used Missouri wage records to identify currently employed students, although the State Wage Interchange System would only allow us to track students employed out of state who had received Workforce Innovation and Opportunity Act or similar federal workforce training benefits. It would probably make a fairly small difference in tracking additional students out of state across the entire population.

Officials from the **University of Missouri System** state the workforce outcomes funding formula will result in a \$70+M increase in the University of Missouri's operating appropriations due to their strong workforce outcomes.

Officials from the **Northwest Missouri State University** assume there is a potential for fiscal impact, but it is dependent on structure of program and could be favorable or unfavorable.

Officials from the **State Technical College of Missouri** assumes this could have a negative fiscal impact to the College. No amount can be estimated.

Officials from the **University of Central Missouri** has determined the potential for a significant fiscal impact however the amount is indeterminate at this time.

Officials from the **Southeast Missouri State University** assume this legislation is likely to have a fiscal impact on Southeast Missouri State University. However, the University is unable to determine an amount, positive or negative, at this time.

Oversight assumes, per DHEWD's response, that this proposal does not necessarily change the cumulative cost of funding institutions of higher education. Therefore, Oversight will not show an impact to the General Revenue.

However, **Oversight** notes the current year appropriation request is typically based on the prior year's core appropriation plus an adjustment for inflation. Oversight assumes some institutions of higher education may receive more than their core appropriation estimate and some may receive less than their core appropriation estimate under performance funding. If this proposal substantially alters the cumulative core funding rather than just the distribution, Oversight assumes this could alter the impact to General Revenue as presented in this fiscal note.

Oversight assumes this proposal could potentially change the allocation of state funds for individual universities and community colleges depending on the workforce readiness of their students. For purposes of this fiscal note, Oversight assumes this proposal will not change the cumulative impact to Community College Funds or University Funds rather it will just change the distribution within those sectors.

Rule Promulgation

Officials from the **Joint Committee on Administrative Rules** assume this proposal is not anticipated to cause a fiscal impact beyond its current appropriation.

Officials from the **Office of the Secretary of State** notes many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The Secretary of State'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 \$5,000. The Secretary of State's office recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, they 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 their office can sustain with their core budget. Therefore, they 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.

<u>FISCAL IMPACT – State Government</u>	FY 2022 (10 Mo.)	FY 2023	FY 2024
UNIVERSITY FUNDS			
<u>Revenue Gain</u> - increase in distribution for universities with higher workforce readiness performance	\$0 or Unknown	\$0 or Unknown	\$0 or Unknown
<u>Revenue Loss</u> - decrease in distribution for universities with lower workforce readiness performance	\$0 or (Unknown)	\$0 or (Unknown)	\$0 or (Unknown)
ESTIMATED NET EFFECT ON UNIVERSITY FUNDS	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

<u>FISCAL IMPACT – Local Government</u>	FY 2022 (10 Mo.)	FY 2023	FY 2024
COMMUNITY COLLEGE FUNDS			
<u>Revenue Gain</u> - increase in distribution for universities with higher workforce readiness performance	\$0 or Unknown	\$0 or Unknown	\$0 or Unknown
<u>Revenue Loss</u> - decrease in distribution for universities with lower workforce readiness performance	\$0 or (Unknown)	\$0 or (Unknown)	\$0 or (Unknown)
ESTIMATED NET EFFECT ON COMMUNITY COLLEGE FUNDS	<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 bill creates the "Rewarding Workforce Readiness in Institutions of Higher Education Act" which provides a new funding mechanism for public two year and four year colleges and universities based on the calculations of earnings for graduates of these institutions.

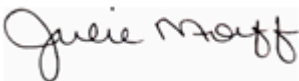
The bill defines "long-term and short-term earnings ratio", "long-term and short-term access ratio" and "long-term and short term student" for both four year and two year state funded institutions of higher education. The bill provides a calculation to determine a long-term and short-term scaled base measure, and the rewarding workforce readiness score for each institution. The calculations will be used by the Department of Higher Education and Workforce Development (DHEWD) to determine the two year or four year institution's share of state funding by comparing the enrollment weighted score for all institutions.

Beginning in 2025, 50% of state funding for two year institutions will be allocated using the rewarding workforce readiness calculation and in 2026 100% of state funding will be allocated via this calculation. Beginning in 2025, 20% of the state aid to four year institutions will be allocated using this calculation and over the succeeding three years the percentage will increase to 100% in 2028. DHEWD may determine earnings data for individuals by utilizing unemployment insurance earnings records or the state wage interchange system.


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 and Workforce Development
Office of the Secretary of State
Joint Committee on Administrative Rules
University of Missouri System
University of Central Missouri
Northwest Missouri State University
State Technical College of Missouri
Southeast Missouri State University



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March 17, 2021



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