

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 2738S.01I
 Bill No.: SB 585
 Subject: Education, Higher; Higher Education and Workforce Development, Department of
 Type: Original
 Date: May 3, 2021

Bill Summary: This proposal creates provisions relating to funding allocations for institutions of higher education.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND				
FUND AFFECTED	FY 2022	FY 2023	FY 2024	FY 2029 (Fully Implemented)
Total Estimated Net Effect on General Revenue	\$0	\$0	\$0	\$0

ESTIMATED NET EFFECT ON OTHER STATE FUNDS				
FUND AFFECTED	FY 2022	FY 2023	FY 2024	FY 2029 (Fully Implemented)
University Funds*	\$0	\$0	\$0	\$0
Total Estimated Net Effect on Other State Funds	\$0	\$0	\$0	\$0

* Revenue gains and losses net to zero.
 Numbers within parentheses: () indicate costs or losses.

ESTIMATED NET EFFECT ON FEDERAL FUNDS				
FUND AFFECTED	FY 2022	FY 2023	FY 2024	FY 2029 (Fully Implemented)
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)				
FUND AFFECTED	FY 2022	FY 2023	FY 2024	FY 2029 (Fully Implemented)
Total Estimated Net Effect on FTE	0	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	FY 2029 (Fully Implemented)
Local Government*	\$0	\$0	\$0	\$0

* Revenue gains and losses 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 a 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 (similar proposal) 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.

In response to a similar proposal, HB 1346 (2021), officials from the **Southeast Missouri State University** assumed 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 (as defined in the proposal) 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. Oversight assumes the new allocation formula will start in 2025 and be fully implemented by FY 2029.

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 within 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	FY 2029 Fully Implemented
UNIVERSITY FUNDS				
<u>Revenue Gain</u> - increase in distribution for universities with higher workforce readiness performance	\$0	\$0	\$0	\$0 or Unknown
<u>Revenue Loss</u> - decrease in distribution for universities with lower workforce readiness performance	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	\$0 or <u>(Unknown)</u>
ESTIMATED NET EFFECT ON UNIVERSITY FUNDS	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

<u>FISCAL IMPACT – Local Government</u>	FY 2022 (10 Mo.)	FY 2023	FY 2024	FY 2029 Fully Implemented
COMMUNITY COLLEGE FUNDS				
<u>Revenue Gain</u> - increase in distribution for universities with higher workforce readiness performance	\$0	\$0	\$0	\$0 or Unknown
<u>Revenue Loss</u> - decrease in distribution for universities with lower workforce readiness performance	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	\$0 or (Unknown)
ESTIMATED NET EFFECT ON COMMUNITY COLLEGE FUNDS	<u>\$0</u>	<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 act shall be known as the "Rewarding Workforce Readiness in Institutions of Higher Education Act". This act establishes funding allocation calculations for institutions of higher education.

The Department of Higher Education and Workforce Development shall allocate funding to each institution as a proportion of the institution's Enrollment-Weighted Score compared to the total Enrollment-Weighted Scores of all two- or four-year institutions, depending on the type of institution.

The Enrollment-Weighted Score shall be the institution's full-time enrollment weighted by the institution's Rewarding Workforce Readiness Score, which shall be calculated by adding base measures based on the additional earnings the institution's graduates experience compared to high school earnings in the long-term and short-term and based on the additional earnings and enrollment of Pell Grant recipients.

This act provides timetables for the phasing-in of the act's funding allocation calculations.

For two-year institutions, in years starting on or before January 1, 2024, funding calculations will be determined based on any allocation mechanism in place before such date. In 2025, the funding allocation calculation in the act shall make up 50% of the calculation, while the remaining 50% shall be based on the old allocation mechanism. In 2026 and each subsequent year, the act's funding allocation calculation shall make up 100% of the calculation.

For four-year institutions, in years starting on or before January 1, 2024, funding calculations will be determined based on any allocation mechanism in place before such date. In 2025, the funding allocation calculation in the act shall make up 20% of the calculation, while the remaining 80% shall be based on the old allocation mechanism. In 2026, the act's calculation shall make up 40%, and the old mechanism shall make up 60%. In 2027, the act's calculation shall make up 60%, and the old mechanism shall make up 40%. In 2028 and each subsequent year, the act's funding allocation calculation shall make up 100% of the calculation.

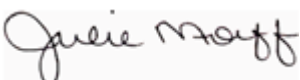
For purposes of the calculations required under the act, the Department may determine earnings data for state residents by reference to unemployment insurance earnings records. For non-residents, the Department may reference records shared with the State Wage Interchange System administered by the U.S. Department of Labor.

This act shall become effective on January 1, 2022.

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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May 3, 2021



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May 3, 2021