

AGENDA ITEM SUMMARY

AGENDA ITEM

2018 Budget Update
Coordinating Board for Higher Education
April 6, 2017

DESCRIPTION

This item provides an update on the FY 2018 higher education budget, including the governor's recommendations and actions taken by the House Budget Committee, as well as the FY 2017 supplemental budget and the timeline for final approval of the budget.

FY 2018

Core institution funding. The department recommended full funding for institutions' core budgets and, through its high-priority funding list, a 5% increase through the performance funding model. The governor recommended a 10% reduction in General Revenue core funding for all institutions and no allocation through the performance funding model. He did, however, recommend a \$500,000 funding increase for the Spinal Cord Injury Fund, a University of Missouri-related budget item, bringing the total recommended amount to \$2,000,000. The House Budget Committee recommended a change to the proposed reduction of institution core budgets. This revision changed the core cut to 6.58% and reduced from all lines of their core funding, not just General Revenue. This change was recommended for all institutions with the exception of the University of Missouri. The reduction for the UM system was reallocated to a 9.0274% overall core cut, but the committee substitute also recommend restoring 50% of the funding for four UM cooperative programs, totaling an increase of \$8.5 million.

Higher education initiatives. The department recommended funding all higher education initiatives at the amount in the Truly Agreed to and Finally Passed FY 2017 budget. Funding for those initiatives was reduced by the expenditure restrictions announced by Governor Nixon on July 1 and September 15 and by Governor Greitens on January 16. The governor's budget included no recommendations for any of these existing higher education initiatives. As previously noted, the House Budget Committee recommended funding of \$8.5 million for UM cooperative programs plus \$100,000 for a college preparation program.

Capital appropriations. HB 17 is the reappropriation bill for capital projects, meaning it provides continued authority for previously approved and funded projects that will not be completed in the current fiscal year. This bill was referred to the House Budget Committee where a public hearing was held, but no action was taken. Currently, the bill would provide continued funding for 32 higher education projects totaling more than \$198 million. This includes 10 projects approved by the Coordinating Board through the Higher Education Capital Fund process (50/50 projects) and 22 maintenance and repair projects funded from the Board of Public Buildings Bond Proceeds Fund. There are two additional capital improvement bills (HB 18 and HB 19), but neither bill currently includes any higher education projects. Since these bills have not been heard in committee at this time, that situation could change as the process unfolds. Finally, HCR 19, which authorizes the University of Missouri-Kansas City to enter into a

bonding agreement with the Missouri Health and Educational Facilities Authority (MOHEFA) to fund the construction of a new conservatory in downtown Kansas City, has completed the process in the House and is awaiting a hearing in the Senate. This project was approved by the Coordinating Board as a “50/50 project” with \$48 million in bond funding matching the same amount raised from private sources.

Student financial assistance programs.

- A+: The department recommended continued funding for the A+ program of \$39,500,000 and the Governor recommended no change to this request. The House Budget Committee also recommended no change to this funding.
- Bright Flight: The department recommended continued funding for the Bright Flight scholarship program of \$20,676,666 and through its high-priority funding list, an additional increase of \$4 million. The governor agreed to the increase in funding for the program and recommended a funding amount of \$24,676,666. The House Budget Committee agreed with the governor’s request for additional funding, but the substitute recommended the additional \$4 million be transferred from the loan operating fund instead of General Revenue.
- Access Missouri: The department’s recommendation for the Access Missouri program included continued funding of \$76,500,000 and through its high-priority list requested an additional \$7 million. The governor’s request did not include any additional funding and remained equal to the FY 2017 funding of \$76,500,000. The House Budget Committee also recommended funding of \$76.5 million, but the substitute recommended \$5.5 million in transfer from the loan operating fund instead of General Revenue.
- Other MDHE Student Financial Assistance Programs: The department requested continued funding at the FY 2017 levels for all other student financial assistance programs plus an increase through the high-priority list of \$60,000 for the Wartime Veteran’s Survivors Grant Program. The Governor’s recommendation did not include an increase in funding for any of these other student financial assistance programs, but recommended maintaining them at their current appropriated levels.
 - Advanced Placement Grants - \$100,000;
 - Public Service Grant Program - \$140,000;
 - Minority Teaching Scholarships - \$169,000;
 - Marguerite Ross Barnett Scholarships - \$500,000;
 - Wartime Veterans Survivor Grants - \$241,250;
 - Kids Chance Scholarships - \$15,000; and
 - Minority Environmental Literacy Program - \$32,9643

The House Budget Committee recommended no changes to the governor's recommendation.

House Budget Committee Substitute for FY 2018 Higher Education budget

On March 15, 2017, the House Budget Committee met to hear the committee chair's proposed changes to the FY 2018 budget. The House budget committee approved these proposed changes Wednesday, March 28, 2017. It is important to note that this information is current as of March 30, 2017. Updated information will be provided in the verbal report that accompanies this board item at the April CBHE meeting.

Missouri Student Loan Program. The House Budget Committee substitute recommended using \$10 million in spending from the Missouri Student Loan Program operating fund to support student financial aid programs. A transfer of \$4 million was recommended from the loan operating fund for Bright Flight funding and a similar transfer of \$5.5 million for the Access Missouri program. An additional appropriation of \$500,000 from the Missouri Student Loan Program operating fund was recommended to develop the new student web portal as authorized in SB 997 (2016). General Revenue funding for that project had been eliminated in the governor's recommended budget.

If these proposed changes were to become part of the Truly Agreed to and Finally Passed version for FY 2018, the Student Loan Program, which has not guaranteed new loans since the passage of the Healthcare and Education Affordability Reconciliation Act in 2010, would be unable to meet its guaranty agency obligations sooner than anticipated.

The student loan guaranty program generates revenue that supports functions throughout the department. Dissolution of the guaranty agency function would create an annual hole in the department's budget of approximately \$1.2 million, which includes both personal service and expense and equipment expenditures. Without additional General Revenue funds, the department would be severely challenged in fulfilling its statutory responsibilities in the absence of support from guaranty agency operations. This is especially true given the trend of assigning significant new responsibilities to the department without corresponding GR funding.

In addition to reducing revenue available to support department staff, specific programs would be eliminated, substantially impacting tens of thousands of Missouri students and families. Those programs include the department's Journey to College program, which includes FAFSA Frenzy, College Application Day, and College Decision Day. This suite of programs provides no-cost assistance with preparing for and transitioning to postsecondary education targeted at first-generation and underrepresented populations of students. The department could also no longer administer the Student Loan Default Prevention Grant program. This program, which is considered a model by other states, provides funding to assist postsecondary education institutions in helping students avoid excessive borrowing and loan default.

Other Committee substitute recommendations. The House budget committee substitute included numerous other recommendations related to the fiscal year 2018 higher education budget.

- Reverted flex language back to FY 2017 and removed language related to executive flex;
- Added 3% reserve flexibility to the Legal Expense Fund;
- Revised title clause language to prohibit support of immigrants with unlawful status;
- Removed agency's responsibility for personal service contributions to constituent services and boards & commissions staff salaries (moved to Office of Administration budget);
- Added language related to the prohibition of common core;
- Zeroed out the governor recommendation of \$1 million in spending authority for non-federal grants and donations (from agency non-mandatory, high priority request list);
- Added language to the debt offset escrow fund to establish a process to transfer intercepted tax refunds between state funds;
- Reinstated \$100,000 in General Revenue spending for College Bound;
- Added \$2.5 million in general refunding funding for the Lincoln University Land Grant match; and
- Included \$75,000 in General Revenue spending for Blue Book printing at the University of Missouri.

FY 2017 Supplemental Budget Request

The governor's recommendation included a supplemental appropriation of \$1,014,700 for FY 2017 for the Bright Flight program. This additional funding, plus the release of the 3% governor's reserve, is necessary to maintain the full award amount of \$3,000. Without this supplemental appropriation, awards will be reduced to \$2,600. The supplemental appropriation bill (HB 14) has been approved by the House and awaits a hearing in the Senate.

Looking Ahead

Given that the state's current revenue picture is unlikely to change substantially in at least the next three to five years, higher education is apt to continue to face funding challenges.

While it is unclear whether additional core reductions to institutional operation are likely for the next fiscal year, it is nearly a certainty that funds will not be available to fully restore the reductions made during FY 2017 and FY 2018. In this environment, institutions will be challenged to adapt and innovate in order to focus on mission-centered operations and maintain academic quality. There is also little doubt this situation creates pressure to increase tuition to cover at least a portion of the reduction. The interaction of this situation with the tuition limits contained in the Higher Education Student Funding Act will present additional challenges for all involved. Finally, the absence of new funds, particularly for an extended period, would likely raise questions about the future of performance funding and how it might be restructured to continue to fulfill its intent of providing clear and consistent incentives for progress toward agreed-upon goals.

Challenges are also likely in the offing for the agency as well, particularly in the area of student financial assistance. Although the reach of Access Missouri peaked in 2012, when the program served more than 57,000 students, the current FAFSA filing cycle may represent the end of that downward trend. By the priority program deadline of February 1, slightly more Access eligible FAFSAs had been filed than were filed by April 1 of last year. By the beginning of March, the difference had increased to more than 15,000 applications. With level program funding, award amounts will likely be reduced for FY 2018. If this does represent the beginning of an upward trend in applications, future awards could experience substantial reductions unless we are successful in advocating for additional need-based funding.

Since the program was transferred to the MDHE in 2010, funding for the A+ Scholarship Program has increased from slightly less than \$20 million to approximately \$35 million in the current fiscal year. While the majority of that increase is attributable to expansion of the program to virtually all public high schools, it is important to remember, as a program tied to tuition and fee costs, increases in these items impact the program as well. For FY 2018, growth in the program will continue through the designation of 57 non-public high schools as A+ eligible. While we continue to believe the proposed FY 2018 funding level will be adequate, the double impact of tuition increases driven by reduced state support for institutional operations and increased recipients as a result of the introduction of more designated schools means that FY 2018 will be particularly difficult to project. Additionally, it is expected that, with increased understanding of the program benefits by families of non-public high school graduates, we will see a larger proportion of their graduates accessing the program in the future. Consequently, we are likely to continue to experience program growth and the related funding concerns for the next several years.

Due to the changes in ACT testing, particularly census testing in Missouri's public high schools, Bright Flight is also experiencing growing pains. With gubernatorial support for an FY 2017 supplemental appropriation and a \$4 million proposed increase for FY 2018, this program will continue to maintain the statutory maximum award of \$3,000 for those in the top three percent of test takers for both fiscal years. However, legislative budget action this year has removed the funds from the DESE budget to maintain ACT census testing. If census testing is halted, we could experience a downturn in eligibility as the population of test takers returns to previous levels. Alternatively, if census testing continues, the current growth pattern is likely to continue for the next several years. As with the previous programs, this level of change and uncertainty makes accurate projects difficult.

Conclusion

The House is expected to take up the budget bills for debate on the House floor soon. The Senate will then begin its work on the FY 2018 budget in the Senate Committee on Appropriations. Appropriations bills must be Truly Agreed to and Finally Passed by 6:00 p.m. on Friday, May 5.

STATUTORY REFERENCE

Chapter 173, RSMo – Department of Higher Education

RECOMMENDED ACTION

2018 Budget Update

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This is an information item only.

ATTACHMENT

Attachment A – FY 2018 Higher education operating budget status (House Bill 3)

FY 2018 Higher Education Operating Budget Status - HB 3

	FY 2017 Core (TAFP)	FY 2018 Department Request	FY 2018 Governor Recommended	Gov Rec Change from FY 2017 Core (TAFP)	House Budget Committee	House Budget Committee Change from Gov Rec
Coordination Administration	\$933,628	\$933,628	\$933,628	\$0	\$932,459	(\$1,169)
Grant/Scholarships Administration	\$149,604	\$152,287	\$149,604	\$0	\$149,604	\$0
Univ of Missouri Review Commission	\$750,000	\$0	\$0	(\$750,000)	\$0	\$0
Proprietary School Administration	\$308,171	\$308,171	\$308,171	\$0	\$308,171	\$0
Proprietary Bond Fund	\$400,000	\$400,000	\$400,000	\$0	\$400,000	\$0
MHEC	\$115,000	\$115,000	\$115,000	\$0	\$115,000	\$0
Eisenhower/Teacher Quality	\$1,248,806	\$1,248,806	\$1,248,806	\$0	\$1,248,806	\$0
Statewide Student Web Portal	\$500,000	\$500,000	\$0	(\$500,000)	\$500,000	\$500,000 ¹
Federal Grants/Donations	\$1,000,000	\$1,000,000	\$1,000,000	\$0	\$1,000,000	\$0
Other Grants/Donations	\$258,358	\$248,358	\$1,098,358	\$840,000	\$98,358	(\$1,000,000)
Academic Scholarship (Bright Flight) GR Transfer	\$16,176,666	\$16,176,666	\$20,176,666	\$4,000,000	\$16,176,666	(\$4,000,000) ²
Academic Scholarship (Bright Flight) Guaranty Transfer	\$0	\$0	\$0	\$0	\$4,000,000	\$4,000,000 ²
Academic Scholarship (Bright Flight)	\$20,676,666	\$20,676,666	\$24,676,666	\$4,000,000	\$24,676,666	\$0
Access Missouri Financial Assistance GR Transfer	\$49,665,640	\$49,665,640	\$49,665,640	\$0	\$44,165,640	(\$5,500,000) ²
Access Missouri Financial Assistance Guaranty Transfer	\$0	\$0	\$0	\$0	\$5,500,000	\$5,500,000 ²
Access Missouri Financial Assistance	\$76,500,000	\$76,500,000	\$76,500,000	\$0	\$76,500,000	\$0
A+ Schools Program	\$39,500,000	\$39,500,000	\$39,500,000	\$0	\$39,500,000	\$0
Advanced Placement Grants	\$100,000	\$100,000	\$100,000	\$0	\$100,000	\$0
Public Service Survivor Grant	\$140,000	\$140,000	\$140,000	\$0	\$140,000	\$0
Minority Teaching Scholarship Prgm	\$169,000	\$169,000	\$169,000	\$0	\$169,000	\$0
Marguerite Ross Barnett Scholarship Prgm	\$500,000	\$500,000	\$500,000	\$0	\$500,000	\$0
Veterans Survivor Grant	\$241,250	\$241,250	\$241,250	\$0	\$241,250	\$0
Kids' Chance Scholarship Program	\$15,000	\$15,000	\$15,000	\$0	\$15,000	\$0
Minority Environmental Literacy Prgm	\$32,964	\$32,964	\$32,964	\$0	\$32,964	\$0
Advantage Missouri	\$15,000	\$15,000	\$15,000	\$0	\$15,000	\$0
Loan Administration	\$8,533,446	\$6,042,483	\$6,033,446	(\$2,500,000)	\$6,032,029	(\$1,417)
Federal Loan Compliance	\$8,500,000	\$8,500,000	\$8,500,000	\$0	\$8,500,000	\$0
Loan Collections	\$15,000,000	\$15,000,000	\$15,000,000	\$0	\$15,000,000	\$0
Purchase Loans	\$160,000,000	\$120,000,000	\$120,000,000	(\$40,000,000)	\$120,000,000	\$0
College Prep Program	\$450,000	\$450,000	\$0	(\$450,000)	\$100,000	\$100,000
Transfer to State Legal Expense Fund	\$0	\$0	\$0	\$0	\$1	\$1
UMKC/MSU Doctorate Pharmacy Prgm	\$2,000,000	\$2,000,000	\$0	(\$2,000,000)	\$1,000,000	\$1,000,000
MO S&T Clay County Engineering Program	\$1,000,000	\$1,000,000	\$0	(\$1,000,000)	\$0	\$0
MO S&T Project Lead the Way	\$400,000	\$400,000	\$0	(\$400,000)	\$0	\$0
SEMO Cyber Security Program	\$500,000	\$500,000	\$0	(\$500,000)	\$0	\$0
Tier 1 Med Student Training (UM & MDHE)	\$5,000,000	\$5,000,000	\$0	(\$5,000,000)	\$0	\$0
HSSU Graduate and STEM Programs	\$500,000	\$500,000	\$0	(\$500,000)	\$0	\$0
UM-Columbia Medical School Expansion	\$10,000,000	\$10,000,000	\$0	(\$10,000,000)	\$5,000,000	\$5,000,000
MSSU/UMKC-Cooperative Dental Program	\$3,000,000	\$3,000,000	\$0	(\$3,000,000)	\$1,500,000	\$1,500,000
Truman State-Autism Services/Clinic	\$1,000,000	\$0	\$0	(\$1,000,000)	\$0	\$0
MSU/Missouri S&T Engineering Expansion	\$2,000,000	\$2,000,000	\$0	(\$2,000,000)	\$1,000,000	\$1,000,000
State Nursing Board Grants	\$2,000,000	\$0	\$0	(\$2,000,000)	\$0	\$0
Funding Based on Improved Outcomes	\$37,192,765	\$0	\$0	(\$37,192,765)	\$0	\$0
Community Colleges	\$151,874,958	\$157,769,796	\$143,041,815	(\$8,833,143)	\$147,391,746	\$4,349,931
State Technical College of Missouri	\$5,857,971	\$6,077,331	\$5,523,220	(\$334,751)	\$5,677,566	\$154,346
University of Central Missouri	\$57,399,456	\$59,712,480	\$54,346,328	(\$3,053,128)	\$55,784,610	\$1,438,282
Southeast Missouri State University	\$47,307,674	\$49,318,098	\$44,879,864	(\$2,427,810)	\$46,073,968	\$1,194,104
Missouri State University	\$87,826,944	\$91,649,516	\$83,451,576	(\$4,375,368)	\$85,620,837	\$2,169,261
Lincoln University	\$18,400,792	\$19,088,124	\$17,360,719	(\$1,040,073)	\$17,832,513	\$471,794
Lincoln University Land Grant Match	\$2,000,000	\$2,000,000	\$500,000	(\$1,500,000)	\$2,000,000	\$1,500,000
Truman State University	\$43,110,124	\$44,681,673	\$40,671,122	(\$2,439,002)	\$41,742,526	\$1,071,404
Northwest Missouri State University	\$32,223,806	\$33,171,557	\$30,188,675	(\$2,035,131)	\$30,989,542	\$800,867
Missouri Southern State University	\$24,415,963	\$25,309,057	\$23,021,302	(\$1,394,661)	\$23,644,235	\$622,933
Missouri Western State University	\$22,523,461	\$23,348,082	\$21,252,706	(\$1,270,755)	\$21,812,252	\$559,546
Harris-Stowe State University	\$10,319,388	\$10,396,989	\$9,472,188	(\$847,200)	\$9,713,078	\$240,890
University of Missouri System	\$0	\$448,667,171	\$408,237,229	\$408,237,229	\$407,913,873	(\$323,356)
Univ of Missouri - Columbia Campus	\$190,551,699	\$0	\$0	(\$190,551,699)	\$0	\$0
Univ of Missouri - Kansas City Campus	\$79,066,457	\$0	\$0	(\$79,066,457)	\$0	\$0
Univ of Missouri - Rolla Campus	\$54,212,974	\$0	\$0	(\$54,212,974)	\$0	\$0
Univ of Missouri - St. Louis Campus	\$60,599,095	\$0	\$0	(\$60,599,095)	\$0	\$0
Univ of Missouri Extension	\$27,643,849	\$0	\$0	(\$27,643,849)	\$0	\$0
Univ of Missouri System Administration	\$11,404,771	\$0	\$0	(\$11,404,771)	\$0	\$0
Univ of Missouri - University-Wide Operations	\$7,757,727	\$0	\$0	(\$7,757,727)	\$0	\$0
Univ of Missouri Press (2015-16 MO Official Manual)	\$0	\$0	\$0	\$0	\$75,000	\$75,000
UMKC Neighborhood Initiative	\$400,000	\$400,000	\$0	(\$400,000)	\$0	\$0
UMSL Biotech	\$450,000	\$450,000	\$0	(\$450,000)	\$0	\$0
Telehealth	\$3,437,640	\$3,437,640	\$1,816,390	(\$1,621,250)	\$1,816,390	\$0
Alzheimer's Research	\$0	\$0	\$0	\$0	\$0	\$0
Spinal Cord Injury	\$1,500,000	\$1,500,000	\$2,000,000	\$500,000	\$2,000,000	\$0
Kidney Program	\$1,750,000	\$1,750,000	\$1,750,000	\$0	\$1,750,000	\$0
State Historical Society	\$3,210,855	\$3,210,855	\$2,460,855	(\$750,000)	\$2,460,855	\$0
Seminary Invest	\$3,000,000	\$3,000,000	\$3,000,000	\$0	\$3,000,000	\$0
Seminary Interest	\$275,000	\$275,000	\$275,000	\$0	\$275,000	\$0
TOTALS	\$1,414,992,568	\$1,368,244,288	\$1,259,768,188	(\$155,224,380)	\$1,282,190,605	\$22,422,417

Notes:

The figures listed for the institutions do not include the Debt Offset Escrow Fund.

¹committee substitute includes the recommendation to establish an appropriation within the student loan program operating fund to support the design of the new student web portal

²committee substitute recommends the transfer for funds from the student loan program operating fund to support Bright Flight and Access MO programs