

Fiscal Note & Local Impact Statement

122nd General Assembly of Ohio

BILL: Am. Sub. S.B. 6 DATE: March 18, 1997

STATUS: As Passed by the House SPONSOR: Senator Kearns

LOCAL IMPACT STATEMENT REQUIRED: No

CONTENTS: Requires the Board of Regents to place a state university or college on a fiscal watch under certain circumstances and authorizes the Governor to replace the board of trustees with a conservator and alternative governance authority if certain conditions are met. Requires the Board of Regents to develop a model training program for training members of boards of trustees and board of regents regarding their authority and responsibilities. Appropriates \$10.3 million to the Office of Budget and Management for Central State University deficit reduction.

State Fiscal Highlights

STATE FUND	FY 1997	FY 1998	FUTURE YEARS
General Revenue Fund			
Revenues	\$600,000 loss	\$900,000 loss	- 0 -
Expenditures	Up to \$10,300,000 increase	Up to \$25,000 increase plus potential increase up to \$200,000	Up to \$25,000 increase plus potential increase up to \$200,000
Colleges & Universities			
Revenues	-0-	-0-	Up to \$110,000 gain
Expenditures	-0-	Potential increase up to several million dollars	Potential increase up to several million dollars
Central State University			
Revenues	Up to \$10,300,000 gain	-0-	-0-
Expenditures	Up to \$10,300,000 increase plus \$600,000 decrease	\$900,000	-0-

Central State University

- One-time state GRF costs of up to \$10,300,000 to cover a significant portion of Central State's fiscal deficit. State GRF revenue loss totaling \$600,000 in fiscal year 1997 and \$900,000 in fiscal year 1998 due to forgiveness of \$1.5 million loan.

Other Costs

- Additional GRF costs of approximately \$25,000 per year for the Board of Regents for a part-time FTE with financial analysis expertise.
- With an institution under a fiscal watch, the Board of Regents' operating expenses could increase up to \$200,000 per year. Depending upon the severity of the fiscal problems of an institution, institutional expenses could total up to several million dollars annually for oversight and management services.



- Additional indeterminate GRF costs for OBM to hire a financial supervisor to monitor adherence to the plan.

Local Fiscal Highlights

- No direct fiscal effect on local governments.

Detailed Fiscal Analysis

The bill has a number of potential fiscal implications for the state as well as colleges and universities. For the most part, the fiscal impact cannot be determined except in broad ranges since most costs will be dependent on the number of campuses that experience a fiscal crisis in the future and the severity of the crisis. However, the bill includes a General Revenue Fund appropriation totaling \$10,300,000 for Central State's fiscal deficit problems. See the Legislative Service Commission's Bill Analysis for a detailed description of the bill.

Development and Implementation of Fiscal Watch Procedures

The bill requires the Office of Budget and Management (OBM) to adopt rules for the creation of standards and procedures for instituting and terminating "fiscal watches" for all state universities, medical colleges, community and technical colleges. These procedures must be developed in consultation with the Auditor of State, Ohio Board of Regents (BOR), and two representatives of state universities and colleges. The development of the rules will be handled with existing staff.

The BOR is required to establish a financial tracking system for the colleges and universities. The development of such a system is currently underway so there will be no additional cost as a result of this provision. The BOR is required to use the system to regularly assess each institution with respect to the criteria for a fiscal watch. The BOR is also required to withhold payment of any instructional subsidies to a college or university until it submits a quarterly financial report.

The BOR is required to make assessments and determinations as to whether a fiscal watch should be instituted or terminated. While an institution is under a fiscal watch, the board of trustees of the university or college must report fiscal information as required by rule. The BOR must also determine whether an institution under a fiscal watch is having sufficient fiscal problems to warrant the appointment of a conservator. The Board of Regents estimates additional costs of approximately \$25,000 per year for an additional part-time staff person with financial analysis expertise. Operating expenses will be expected to increase up to \$200,000 per year if any campuses fall under the fiscal watch criteria.

Expenses for Institutional Management

In certain instances the bill requires the appointment of a conservator, governance authority, executive director and related staff. Although the bill specifies that any expenses and/or compensation be paid out of the operating funds of the college or university, such costs will most likely be covered by the state. Depending upon the severity of the fiscal problems of an institution, approximately \$50,000 to \$200,000 may be necessary for short-term management expenses. If an institution faces problems proportionate to Central State, oversight and management services will cost several million dollars per year.

According to the Board of Regents, fiscal year 1997 costs are expected to total \$1.2 million for the Executive Management team handling the Central State University financial crisis. Other costs include \$500,000 for financial accounting services and \$165,000 for State Auditor fees. In addition, Central State is expected to need anywhere from \$10 to \$15 million to meet current obligations and operating expenses in fiscal year 1997.

Training Program Expenses

The bill also requires the BOR to develop a model training program for the members of the boards of trustees of state universities and colleges, including university branches. Participation in a training program is voluntary. This analysis does not include any cost estimates for a training program, assuming that such a program could be assimilated into an existing, regularly scheduled meeting or conference.

Central State University

The bill appropriates state GRF monies totaling \$10,300,000 to the Office of Budget and Management for Central State to handle their financial problems. According to the Office of Budget and Management, those monies will be allocated as follows:

- \$6.39 million for prior year accounts payable. This includes \$3.41 million in fiscal year 1996 accounts payable paid from fiscal year 1997 operating funds, \$2.68 million in prior year accounts payable not yet paid, and \$300,000 in contingency for invoices that are yet to be discovered.
- \$3.91 million for a fiscal year 1997 operating deficit. This estimate includes \$700,000 for off-campus housing and transportation, \$1.87 million for consultant and state auditor fees, \$1.15 million for unanticipated employee costs (sick and vacation leave payouts and returning faculty costs) and a deficit of \$191,959 for operations. The consultant fees include the costs for the Executive Management Team, contracts for accounting services and services to develop the fiscal year 1996 financial statement.

The bill also forgives a \$1.5 million loan from the state. In April 1995 the Controlling Board approved a \$2.5 million grant and a \$1.5 million loan for Central State. The loan was originally to be repaid in the amount of \$600,000 in fiscal year 1996 and \$900,000 in fiscal year 1997. Amended Substitute S.B. 310 delayed the payments by one year.

The bill requires Central State to prepare a Fiscal Recovery Plan. As a condition of the plan, the Office of Budget and Management will appoint a financial supervisor to monitor adherence to the plan. The financial supervisor will serve as the chief financial officer and report to the director of Budget and Management. There will be increased GRF costs to hire a financial consultant.

The bill allows the director of OBM to use the resources of his office as necessary, including any remaining appropriations granted from the Emergency Purposes account of the Controlling Board on July 11, 1996. According to a spokesperson from OBM, this amounts to approximately \$40,000.

□ *LBO Staff: Gloria Gardner, Senior Analyst*