

Fiscal Note & Local Impact Statement

122nd General Assembly of Ohio

BILL: S.B. 6

DATE: 01/29/97

STATUS: As Introduced

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 members of boards of trustees to receive training regarding their authority and responsibilities.

State Fiscal Highlights

STATE FUND	FY 1997	FY 1998	FUTURE YEARS
General Revenue Fund			
Revenues	- 0 -	- 0 -	- 0 -
Expenditures	Up to \$20,000 increase	Up to \$45,000 increase plus potential increase up to \$200,000	Up to \$86,000 increase plus potential increase up to \$200,000
Colleges & Universities			
Revenues	- 0 -	-0-	Gain of up to \$110,000
Expenditures	- 0 -	Up to \$110,000 plus potential increase up to several million dollars	Up to \$12,000 plus potential increase up to several million dollars

- One-time state GRF costs of about \$40,000 to cover the Board of Regents' personnel and operating expenses to develop rules for the fiscal watch criteria and procedures (assumes \$20,000 each in fiscal years 1997 and 1998). 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 one-time costs to colleges and universities totaling up to \$110,000 for travel expenses related to the training program for members of the boards of trustees. Costs for colleges and universities totaling up to \$12,000 annually for training new board members. Beginning in fiscal year 2000, the colleges will receive additional revenue from the state totaling up to \$61,000 to cover such expenses (a portion of these costs will be covered by other sources revenue). In ensuing years, these operating costs will continue to be modeled through the instructional subsidy formula with the state covering approximately 55.0 percent of such costs.

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 those crisis. 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 Ohio Board of Regents (BOR) 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, Director of Budget and Management, and persons from at least ten state universities or colleges. The Board of Regents estimates one-time costs of approximately \$40,000 to cover personnel and operating expenses to develop such rules. There will also be a cost to the institutions and state agencies for the provision of staff and travel expenses for those persons serving on the committee.

The BOR is also 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 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 \$300,000 for financial accounting services and \$150,000 to hire a consultant to conduct a search for a president. 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 training program for the members of the boards of trustees of state universities and colleges, including university branches. The program must be offered at least twice annually to each member of the boards of trustees on either a statewide or regional basis. Each board member or new appointee must complete the training program within one year of the bill's effective date. For the first year of training the BOR estimates additional costs for the colleges and universities totaling up to \$110,000 for a two-day statewide conference. This estimate assumes reimbursing 360 persons about \$150 per day for travel expenses. On-going training costs would total about \$12,000 annually for travel expenses for 38 board members (there are 38 new appointments each year). Beginning in fiscal year 2000, the institutions would receive some reimbursement for these costs through the subsidy. There would also be increased costs for any state agencies providing staff for the training program.

□ *LBO Staff: Gloria Gardner, Senior Analyst*