

# Fiscal Note & Local Impact Statement

122<sup>nd</sup> General Assembly of Ohio

BILL: Sub. S.B. 6 (LSC 122-0331-1)

DATE: 02/04/97

STATUS: In Finance and Financial Institutions

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 offer training programs to the members of boards of trustees and board of regents regarding their authority and responsibilities. Appropriates \$10.9 million to Central State University for deficit reduction.

## State Fiscal Highlights

STATE FUND	FY 1997	FY 1998	FUTURE YEARS
<b>General Revenue Fund</b>			
Revenues	\$600,000 loss	\$900,000 loss	- 0 -
Expenditures	Up to \$10,870,000 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
<b>Colleges &amp; Universities</b>			
Revenues	-0-	-0-	Up to \$110,000 gain
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
<b>Central State University</b>			
Revenues	Up to \$10,850,000 gain	-0-	-0-
Expenditures	Up to \$10,850,000 Increase plus \$600,000 decrease	\$900,000	-0-

### Central State University

- One-time state GRF costs of up to \$10,850,000 to cover a significant portion of Central State's fiscal problems. 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

- 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.
- Potential additional state GRF costs for the Board of Regents' to cover travel expenses for any members of the Board of Regents participating in a training program.

### ***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. However, the bill includes a General Revenue Fund appropriation totaling \$10,850,000 for Central State's fiscal 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 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 for the members of the boards of trustees and Board of Regents. Participation in the training program is voluntary.

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.

There will also be additional state GRF costs for the Board of Regents' to cover travel expenses for any members of the Board of Regents participating in a training program. If all nine members participate, costs could total up to \$2,700 for a two-day conference.

### **Central State University**

The bill appropriates state GRF monies totaling \$10,850,000 to 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.
- \$4.46 million for a fiscal year 1997 operating deficit. This estimate includes \$700,000 for off-campus housing and transportation, \$2.02 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 \$591,959 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. There will be increased GRF costs to hire a financial consultant.

□ *LBO Staff: Gloria Gardner, Senior Analyst*