



SOUTH CAROLINA REVENUE AND FISCAL AFFAIRS OFFICE
STATEMENT OF ESTIMATED FISCAL IMPACT
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Bill Number: S. 1166 As signed by the Governor on June 7, 2016
Author: Leatherman
Subject: SC State University
Requestor: Senate
RFA Analyst(s): Walling, Kokolis, and Shuford
Impact Date: August 3, 2016

Estimate of Fiscal Impact

	FY 2016-17	FY 2017-18
State Expenditure		
General Fund	See Below	See Below
Other and Federal	See Below	See Below
Full-Time Equivalent Position(s)	0.00	0.00
State Revenue		
General Fund	\$0	\$0
Other and Federal	See Below	See Below
Local Expenditure	\$0	\$0
Local Revenue	\$0	\$0

Fiscal Impact Summary

This bill potentially reduces South Carolina State University’s current outstanding debt service obligations of \$12,000,000 if SCSU obtains SACS accreditation for the FY 2016-17 school year and meets other benchmarks in subsequent years. Simultaneously, this bill potentially reduces revenue to the State, by the same \$12,000,000, for the debt repayment obligations relieved pursuant to this bill. Additionally, this bill would reduce General Fund expenditures by \$1,462,290 and Other Fund expenditures by \$937,710 each year beginning FY 2016-17 and ending FY 2021-22 if South Carolina State University institutes a twenty day mandatory employee furlough program. South Carolina State University is also responsible for expenditures up to \$150,000 in FY 2016-17 for the cost of a third party accounting consultant.

Explanation of Fiscal Impact

Explanation of Amendment by the Senate on May 31, 2016

State Expenditure

This bill as amended outlines the loan repayment agreement and repayment schedule for two loans provided to South Carolina State University (SCSU). The first of which is the \$12,000,000 loan provided pursuant to Proviso 19.2, Part 1B, of Act 286 of 2014. The second loan referenced was to the university pursuant to April 30, 2014 Budget and Control Board loan in the amount of \$6,000,000. The loan of \$12,000,000 will be forgiven at a rate of \$8,000,000 in FY 2016-17, \$2,000,000 in FY 2017-18, and \$2,000,000 in FY 2018-19 provided the university receives and maintains accreditation from the Southern Association of Colleges and Schools (SACS) and meets certain benchmarks for each subsequent fiscal year until the loan is fully forgiven. Additionally, the loan agreement includes a provision for the South Carolina State Auditor to

review the financial structure and activities of SCSU. Upon the completion of this review, the State Auditor must submit a report of finding and recommendations to designated authorities by December 30, 2016. The bill requires the Executive Director of the State Fiscal Accountability Authority (SFAA) to hire a third-party accounting consultant to assist SCSU, SFAA, and the State Auditor with their responsibilities for evaluating and promoting the financial integrity of SCSU. The cost of this consultant must not exceed \$150,000 in FY 2016-17 and must be paid by SCSU. SCSU in consultation with the South Carolina Commission on Higher Education (CHE) must develop a quarterly report showing the university's status of fiscal affairs and enrollment growth based on reasonable metrics and benchmarks and provide the report to legislative committees. CHE must certify SCSU has met and maintained required benchmarks to designated authorities by November 1 of each year.

The remaining debt incurred by SCSU pursuant to the April 30, 2014 loan from the Budget and Control Board must be repaid at a rate of \$355,036 annually. The bill as amended authorizes SCSU to reprogram FY 2016-17 appropriations in order to attain accreditation status from SACS. SCSU must notify the designated authorities of any reprogramming.

The amended bill extends SCSU's authority to institute mandatory employee furlough program of twenty days or less each fiscal year, provided furloughs are implemented according to specified requirements. This authority is extended through FY 2021-22.

South Carolina State University. SCSU confirmed this bill may reduce the university's current outstanding debt obligations referenced in Section 1 by a total of \$12,000,000. The April 30, 2014 loan provided by the Budget and Control Board remains in effect and must be repaid at its current rate of \$355,036 annually.

Furthermore, the university indicates this bill will result in a savings of \$120,000 per day of a mandatory employee furlough. These savings would decrease General Fund expenditures by \$72,000 and Other Fund expenditures by \$48,000 for each day a furlough is instituted. The furlough will allow the university to reduce General Fund and Other Fund personnel expenditures by a maximum of \$1,462,290 and \$937,710 per year, respectively, for a total of \$2,400,000 if the furlough is implemented for the maximum twenty days. SCSU is also responsible for the cost of the third party accounting consultant, up to a maximum of \$150,000 in FY 2016-17.

South Carolina Office of the State Auditor. The office indicates this bill will have no expenditure impact on the General Fund, Federal Funds, or Other Funds.

State Fiscal Accountability Authority. The authority indicates this bill will have no expenditure impact on the General Fund, Federal Funds, or Other Funds.

South Carolina Commission on Higher Education. The commission indicates this bill will have no expenditure impact on the General Fund, Federal Funds, or Other Funds.

State Revenue

This bill will reduce SCSU's debt repayment obligations to the State for the \$12,000,000 loan provided pursuant to Proviso 19.2, Part 1B, of Act 286 of 2014 if SCSU obtains SACS accreditation for the FY 2016-17 school year and meets other benchmarks.

Local Expenditure and Revenue

N/A

Explanation of Bill as Filed by Senate Finance on March 10, 2016

State Expenditure

This bill relieves \$1,000,000 of South Carolina State University's (SCSU) outstanding debt for each year the university operates without an operating budget deficit. In years in which loan principal is forgiven, the next year's installment payment shall be proportionately reduced. The new payment amount will be calculated by the Executive Budget Office and provided to SCSU on or before July 30th each year. Additionally, this bill allows the institution to implement a mandatory employee furlough of up to twenty days in each fiscal year. The furlough option is available beginning with FY 2016-17 and ending with FY 2021-22.

South Carolina State University. A review of the university's current outstanding debt obligations referenced in Section 1 of this bill indicates accrued debt from indirect cost recoveries, pursuant to Section 2-65-70, will total \$741,778 at the end of FY 2015-16. Outstanding debt obligations also include an interagency loan of \$6,000,000 approved by the Budget and Control Board on April, 30 2014. A loan repayment schedule extends the due date of this loan to June 30, 2020, and requires the first annual payment of \$355,036 be made by June 30, 2016. Total principal and interest payments by SCSU based on this schedule would total \$6,280,934 by June 30, 2020, before any reduction specified in this bill.

This bill does not affect the transfer of up to \$12,000,000 that was certified by the South Carolina State Blue Ribbon Advisory Committee, approved by the Joint Bond Review Committee, and subsequently sourced from the Contingency Reserve Fund by the Budget and Control Board at a meeting on December 8, 2014. Since the funds were transferred from the Contingency Reserve Fund without any repayment requirements, these transferred funds are not considered a debt service obligation for this analysis.

Given that Section 3 of this legislation allows a proportional reduction of outstanding debt obligations for each fiscal year that the university ends without an operating deficit, the annual repayment obligations for the \$6,000,000 loan and the indirect cost recoveries may be reduced over time. A preliminary analysis provided by Senate Finance Committee staff and SCSU suggests that up to \$3,434,400 of outstanding principal and interest obligations may be relieved through this legislation if SCSU ends each fiscal year without an operating budget deficit. This will reduce SCSU debt service repayment obligations to the State.

Furthermore, the university indicates this bill will result in a savings of \$115,000 per day of a mandatory employee furlough. These savings would decrease General Fund expenditures by \$69,000 and Other Fund expenditures by \$46,000 for each day a furlough is instituted. The

furlough will allow the university to reduce General Fund and Other Fund personnel expenditures by a maximum of \$1,362,290 and \$937,710 per year, respectively, for a total of \$2,300,000 if the furlough is implemented for the maximum twenty days.

The Department of Administration. The Department of Administration indicates this bill will have no expenditure impact on the General Fund, Federal Funds, or Other Funds.

State Revenue

This bill will reduce SCSU's debt repayment obligations to the State for the \$6,000,000 loan and the indirect cost recoveries. The reduction in principal and interest payments to the State by SCSU may total up to \$3,434,400 through FY 2019-20 if SCSU ends each fiscal year without an operating budget deficit.

Local Expenditure and Revenue

N/A



Frank A. Rainwater, Executive Director