



**SOUTH CAROLINA REVENUE AND FISCAL AFFAIRS OFFICE**  
**STATEMENT OF ESTIMATED FISCAL IMPACT**  
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<b>Bill Number:</b>	S. 0298	Introduced on January 8, 2019
<b>Author:</b>	Sheheen	
<b>Subject:</b>	Higher Ed. Funding	
<b>Requestor:</b>	Senate Finance	
<b>RFA Analyst(s):</b>	A. Martin, Gallagher, Jolliff, R. Martin, Shuford, and Wren	
<b>Impact Date:</b>	February 13, 2019	

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### **Fiscal Impact Summary**

This bill will increase General Fund expenditures by \$30,200,378 for FY 2019-20 for additional appropriations to institutions of higher learning. The increase in expenditures each year thereafter will be based on the increase in General Fund revenue.

This bill will increase General Fund expenses of the State Department of Education (SDE) by an undetermined amount in FY 2019-20 since the amount of staff time needed to convert PowerSchool data to a seven-point grading scale is unknown.

This bill will increase expenses of local school districts by an undetermined amount beginning in FY 2019-20 since the amount of staff time to enter data into PowerSchool and to convert transcripts to a seven-point grading scale is unknown.

This bill will have no expenditure impact on the Revenue and Fiscal Affairs Office (RFA) because the agency will administer responsibilities resulting from the bill with the use of existing staff and resources.

This bill may increase General Fund expenditures by \$10,000 in FY 2019-20 for the services of a consultant to assist the Commission on Higher Education (CHE) with the completion of a study.

This bill will reduce expenditures of the State Board of Technical and Comprehensive Education (SBTCE) by up to \$440,000 in FY 2019-20 and each year thereafter for five years because it relieves them of the responsibility of procuring a vendor for student loan default prevention services.

This bill requires the State Fiscal Accountability Authority (SFAA) to procure a vendor to service a student loan default aversion program. The expenditure impact of this bill is pending, contingent upon receiving additional information from SFAA.

This bill will increase funding to the Higher Education Opportunity Trust Fund by at least \$78,437,770 beginning in FY 2019-20. Of this total, \$43,737,770 will be reallocated from the General Fund, \$20,400,000 will be reallocated from the Education Improvement Act (EIA) and Homestead Exemption Funds, and \$14,300,000 will be reallocated from local funds. Because any shortfall in the Homestead Exemption Fund must be funded by the General Fund, this

reallocation would reduce available General Fund revenue by \$10,200,000. The total revenue impact of this bill is pending additional analysis of sections affecting revenue by RFA.

## **Explanation of Fiscal Impact**

### **Introduced on January 8, 2019**

#### **State Expenditure**

This bill may be referred to as the Higher Education Opportunity Act. Except as otherwise provided, this bill takes effect on July 1, 2019.

**Section 2, Subarticle 1.** This subarticle provides an increase in General Fund appropriations to public institutions of higher learning, including technical institutions, in any fiscal year in which General Fund revenues are projected to increase. The increase in appropriations to each public institution must be equal to the projected percent increase in General Fund revenues, but may be no more than 5 percent. In addition, if General Fund revenues are projected to decrease, the appropriations to each public institution of higher learning may be decreased by no more than the projected percentage decrease in revenues. Recurring General Fund appropriations for all public institutions of higher learning, including two-year regional campuses of the University of South Carolina (USC) and the State Board of Technical and Comprehensive Education (SBTCE), totaled \$604,007,550 for FY 2018-19. The most recent General Fund revenue projection provided by the Revenue and Fiscal Affairs Office (RFA) shows revenue increasing by 5.8 percent in FY 2019-20. Because the increase in appropriations is capped at 5 percent, this bill will increase General Fund expenditures by \$30,200,378 for FY 2019-20. From the language of the bill, it is unclear if Area Health Education Consortium (AHEC) should be considered an institution of higher learning. We have included appropriations for AHEC in this analysis. Of the increase in expenditures listed above, \$532,548 is due to the increase in AHEC appropriations.

**Revenue and Fiscal Affairs.** This bill requires RFA to provide the projected percentage change in General Fund revenues. RFA currently provides this information pursuant to statute. Therefore, this subarticle of the bill will have no expenditure impact on RFA.

**Section 2, Subarticle 2.** This subarticle establishes the Higher Education Opportunity Trust Fund. This fund must be used to provide need-based scholarships to full-time undergraduate students from South Carolina and to fund the costs to public institutions of higher learning for educating South Carolinians. For the purposes of this subarticle, the definition of public institution of higher learning does not include technical colleges. Institutions of higher learning must publish on their websites a report of the institution's undergraduate enrollment. RFA has requested additional information from CHE and institutions of higher learning regarding this impact.

**Revenue and Fiscal Affairs.** This bill requires RFA to calculate the various revenue streams required to be allocated to the trust fund. In addition, RFA will be required to track the funding for the base state funding, mid-year budget cuts and shortfalls, and funding of the Higher Education Opportunity Trust Fund and the Higher Education Facilities Repair and Renovation Fund for the purposes of determining a suspension of the limitations on in-state tuition increases.

RFA intends to accomplish this task with the use of existing staff and resources. Therefore, this subarticle will have no expenditure impact on RFA.

**Commission on Higher Education.** The Commission on Higher Education (CHE) will be responsible for determining, in accordance with this bill, the percentage of the trust fund that each institution will receive. This percentage allocation must be updated each year. In addition, CHE must provide a consolidated report of institutional summaries regarding undergraduate enrollment data. CHE indicates that it will use existing staff to complete this task. Therefore, this section of the bill will have no expenditure impact on CHE.

**Section 2, Subarticle 3.** This subarticle establishes the Higher Education Facilities Repair and Renovation Fund for necessary renovation, repair, and related maintenance of public institutions of higher learning, including technical schools. The General Assembly will appropriate at least \$25,000,000 annually to the fund. Of this amount, 25 percent will be distributed among the public technical colleges, and the remaining 75 percent will be distributed among the public institutions of higher learning. This fund may be partially or wholly funded by sales and use tax revenues collected by an audit of the Department of Revenue of any South Carolina retailer who has utilized the provisions of Section 12-36-2691. The remaining \$25,000,000 will be appropriated by the General Assembly.

**Department of Administration.** This fund will be administered by the Executive Budget Office (EBO), which is a part of the Department of Administration (Admin). EBO will transfer 25 percent of funds available to SCBTE. EBO must develop a formula for the distribution of the remaining 75 percent of the funds among the state's public institutions of higher learning. EBO must review requests for funds from the institutions and report on the utilization of funds. Admin indicates that this section of the bill will increase workload for both Admin and EBO staff. However, the agency indicates that the additional responsibilities will be managed within existing appropriations. Therefore, this subarticle will have no expenditure impact on Admin.

**State Board of Technical and Comprehensive Education.** This subarticle requires SBTCE to distribute 25 percent of the funds from the renovation fund to the state's public technical colleges. The board must determine the manner in which the funds are distributed. SBTCE intends to carry out this responsibility within existing appropriations. Therefore, this subarticle will have no expenditure impact on SBTCE.

**Section 3.** This section of the bill phases out the ten-point grading scale for the purposes of determining eligibility for the LIFE, HOPE, and Palmetto Fellows Scholarships. Grade-point averages for students graduating in the 2018-19 or 2019-20 school year will be calculated using a combination of the ten-point and seven-point grading scales. Grade-point averages for students graduating after the 2019-20 school year will be calculated using a seven-point grading scale.

**Commission on Higher Education.** This bill requires CHE to act as a consultant for the Department of Education (SDE) in the development of a grade conversion scale for the purpose of determining scholarship eligibility. CHE indicates that it will use existing staff to complete this task. Therefore, this section of the bill will have no expenditure impact on CHE.

**State Department of Education.** This bill requires SDE to work with CHE to develop a grade conversion scale and to adopt any other policies necessary to implement the provisions of this bill. SDE indicates that the department will incur additional General Fund expenses in FY 2019-20 to convert PowerSchool data to a seven-point grading scale. The amount of staff time to conduct programming changes to PowerSchool is unknown. SDE will also need to conduct quality assurance checks to assist districts with errors that may occur. This staff time can be managed within existing appropriations. In summary, the expenditure impact on General Fund expenses of SDE is undetermined for FY 2019-20.

**Section 4.** This section of the bill requires the General Assembly to increase appropriations to the need-based grant program for FY 2019-20 and FY 2020-21. The amount of the increase must be determined by RFA in consultation with CHE. The increase in appropriations for the need-based grant program may not be less than the amount of scholarship savings each year due to the phase-out of the ten-point grading scale for the LIFE, HOPE, and Palmetto Fellows scholarships as outlined in Section 3. This section further stipulates that the increase must be at least \$5,300,000 for FY 2019-20 and \$5,000,000 for FY 2020-21.

In the spring of 2016, the State Board of Education adopted an updated Uniform Grading Policy, moving from a seven-point scale to a ten-point scale. In January 2017, SDE reported the anticipated costs of this change. Actual experience has not matched the study projections. The study projected a year-over-year increase in disbursements for LIFE, HOPE, and Palmetto Fellows scholarships of 7.4 percent for FY 2017-18. Actual FY 2017-18 disbursements for these scholarships increased by 4.4 percent over the prior year. During the five year period prior to the change in grading scale, total disbursements of these scholarships increased by an average of 3.4 percent each year. If 3.4 percent of the annual increase is attributable to normal growth, then the additional 1.0 percent annual growth experienced in FY 2017-18 could be attributed to the change in grading scale. This would equate to approximately \$2,662,000 in additional merit scholarship funds that could be attributed to the change in grading scale. If merit scholarship disbursements continue to experience a similar growth rate, the amount of funds that would be reallocated to need-based scholarships would not exceed the minimums established in this bill. Therefore, an additional \$5,300,000 in FY 2019-20 and \$5,000,000 in FY 2020-21 will be appropriated to need-based scholarships. While a portion of these funds will be due to the reallocation of merit scholarship funds, the General Assembly must make a determination of how to appropriate the remaining funds. Because the amount of merit scholarship funds reallocated is unknown at this time, the increase in General Fund expenditures is undetermined.

**Revenue and Fiscal Affairs.** This bill requires RFA to determine appropriations act funding requirements for the need-based grant program, which will be accomplished with the use of existing staff and resources. Therefore, this section of the bill will have no expenditure impact on RFA.

**Commission on Higher Education.** This section of the bill requires CHE to consult with RFA for the purposes of determining the amount of the funding increase. CHE indicates that it will use existing staff to complete this task. Therefore, this section of the bill will have no expenditure impact on CHE.

**Section 5.** This section stipulates that once the South Carolina Tuition Grants Commission (SCTG) and CHE are receiving equal funding for need-based grants, the General Assembly must increase these appropriations annually. This includes both General Fund appropriations and lottery funds. For FY 2018-19, direct appropriations to CHE for need-based scholarships totaled \$32,000,000. In the same year, direct appropriations to SCTG for need-based scholarships totaled \$35,958,624, which is \$3,958,624 more than CHE appropriations. However, funds for need-based scholarships are transferred from CHE to SCTG pursuant to Chapter 143, Title 59. Therefore, direct appropriations do not equal total funding received by each agency. It is unclear whether this equality will be accomplished by increasing appropriations to CHE, decreasing appropriations to SCTG, or a combination of both. Therefore, the expenditure impact to the General Fund and the Lottery Expenditure Account is undetermined.

Once the provision of equal funding is met, the concurrent increases will be based on the percentage increase in the higher education price index (HEPI) for the immediately preceding fiscal year. The HEPI, as reported by the Commonfund Institute, increased by 2.8 percent for FY 2017-18. This is slightly higher than the average of 2.4 percent for the preceding five fiscal years. Regardless of the actual HEPI increase, the increase may not exceed 2.75 percent. RFA is unable to determine in which fiscal year this concurrent increase will begin, therefore the expenditure impact is undetermined. However, based on total FY 2018-19 direct appropriations to CHE and SCTG for need-based scholarships of \$67,958,624, and the five year average HEPI increase of 2.4 percent, this section of the bill would increase expenditures by approximately \$1,631,000 each year beginning in FY 2019-20.

**Revenue and Fiscal Affairs.** This bill requires RFA to determine the increase in funding for need-based grants. This increase is based on the percentage increase in the higher education price index and is capped at two and three-quarters percent each year. This will be accomplished with the use of existing staff and resources. Therefore, this section of the bill will have no expenditure impact on RFA.

**Section 6.** This section changes the eligibility requirements for the additional stipend earned by LIFE and Palmetto Fellows scholarship recipients. Currently, scholarship recipients may earn an additional stipend beginning in their sophomore year. This bill delays the stipend until their junior year. Beginning in FY 2022-23, the funds not expended for these stipends will be reallocated to SCTG and CHE for the purpose of funding need-based grants for public college students. This section of the bill does not become effective until July 1, 2022. RFA has requested additional information from CHE concerning the number of sophomores in FY 2022-23 projected to receive the stipend.

**Revenue and Fiscal Affairs.** This bill requires RFA to determine the amount reallocated from funding for LIFE and Palmetto Fellows additional stipends. This will be accomplished with the use of existing staff and resources. Therefore, this section of the bill will have no expenditure impact on RFA.

**Commission on Higher Education.** This section of the bill requires CHE to consult with RFA for the purposes of determining the amount of the funding increase. CHE indicates that it will

use existing staff to complete this task. Therefore, this section of the bill will have no expenditure impact on CHE.

**Section 7.** This section stipulates that proposals for maintenance, renovation, repair, and auxiliary permanent improvement projects for institutions of higher learning must be submitted to the Department of Administration's (Admin) Executive Budget Office (EBO) instead of CHE.

**Department of Administration.** Admin indicates that this section of the bill will increase workload for both Admin and EBO staff. However, the agency indicates that the additional responsibilities will be managed within existing appropriations.

**Section 8.** This section increases the dollar limit on certain gifts to agencies and institutions. In addition, it allows for an increase in the dollar amounts that define various permanent improvement projects for institutions of higher learning.

**Revenue and Fiscal Affairs.** This bill requires RFA to determine the inflation adjustment for these dollar limits on gifts and projects. This will be accomplished with the use of existing staff and resources. Therefore, this section of the bill will have no expenditure impact on RFA.

**Section 11.** This section requires CHE to submit policy statements and regulations to the General Assembly for review.

**Commission on Higher Education.** CHE will administer tasks related to this section of the bill with the use of existing staff and resources. Therefore, this section of the bill will have no expenditure impact on CHE.

**Section 12(A).** This section requires the State Fiscal Accountability Authority (SFAA) to procure a vendor to administer a "Student Loan Default Aversion and Financial Literacy Program." Funding for this program may only come from existing funds held in an account of the South Carolina State Education Assistance Authority, which is administered through SFAA.

**State Fiscal Accountability Authority.** This section of the fiscal impact statement is pending, contingent upon receiving additional information from SFAA.

**State Board of Technical and Comprehensive Education.** SBTCE awarded a contract in November 2018, to a third party for student loan default prevention services. The contract was awarded for a maximum of \$2,200,000 for up to five years. SBTCE has the option to renew the contract at the end of each year. By having SFAA procure a vendor for these services, this would reduce General Fund expenditures of SBTCE by up to \$440,000 for FY 2019-20 and each year thereafter for up to five years.

**Section 12(B).** This section requires CHE to study and make recommendations regarding the costs and opportunities associated with implementing a centralized college admissions application system. The study must be completed by December 31, 2019.

**Commission on Higher Education.** CHE indicates that this may require the services of a consultant, which would create a non-recurring expenditure of \$10,000. Therefore, this section of the bill will increase General Fund expenditures for CHE by \$10,000 in FY 2019-20.

### **State Revenue**

**Section 2, Subarticle 2.** This subarticle of the bill establishes the Higher Education Opportunity Trust Fund. The trust fund will be funded through the following currently existing revenue sources: certain sales and use tax revenues, admission taxes collected by public institutions of higher learning, and indirect cost recoveries remitted by public institutions of higher learning.

Sales and use tax revenues from South Carolina retailers who utilize the provisions of Section 12-36-2691, less any sales and use tax remitted by any such retailer in FY 2018-19, will be credited to the trust fund. The revenue impact of this section is pending, contingent upon an analysis of distribution facility tax liability in excess of sales tax revenue remitted in FY 2018-19.

Sales and use tax revenues from remote sellers, as well as those from independent sellers through a South Carolina retailer, will be credited to the trust fund. RFA estimates that this sales and use tax revenue will total \$75,500,000 in FY 2019-20. Of this total, \$40,800,000 would be reallocated from the General Fund from the 4 percent sales tax. Reallocations from the EIA Fund and the Homestead Exemption Fund would each amount to an estimated \$10,200,000 for the 1 percent tax allocated to each of these funds. Reallocations from local sales and use taxes would amount to an estimated \$14,300,000 statewide. Revenue reallocations from the local sales tax revenue will depend on the local option sales taxes in effect for the various counties. However, any shortfall in the Homestead Exemption Fund revenue must be funded by the General Fund. Therefore, this reallocation from the Homestead Exemption Fund would reduce available General Fund revenue by \$10,200,000.

Admission taxes collected by public institutions of higher learning will be credited to the trust fund. These funds will be reallocated from the General Fund. The revenue impact of this section is pending, contingent upon an analysis of admission tax revenue by RFA.

Indirect cost recoveries remitted by public institutions of higher learning will be credited to the trust fund. These funds will be reallocated from the General Fund. Public institutions of higher learning remitted a total of \$2,937,770 in indirect cost recoveries in FY 2017-18.

In summary, this bill will reallocate at least \$78,437,770 to the Higher Education Opportunity Trust Fund beginning in FY 2019-20. Total Other Funds of \$20,400,000 from the EIA and Homestead Exemption Funds will be reallocated to the Higher Education Opportunity Fund. An estimated \$14,300,000 will be reallocated from local funds. At least \$43,737,770 will be reallocated from the General Fund plus the additional \$10,200,000 that will be required to fund the Homestead Exemption Fund shortfall. The total impact of this bill is pending additional analysis of tax revenue by RFA.

**Local Expenditure**

**State Department of Education.** This bill requires SDE to work with CHE to develop a grade conversion scale and to adopt any other policies necessary to implement the provisions of this bill.

SDE indicates that local school districts will incur additional expenses to enter data into PowerSchool and to convert transcripts to the seven-point grading scale. Since the amount of staff time to enter data and convert transcripts is unknown, the expenditure impact on local school districts is undetermined beginning in FY 2019-20.

**Local Revenue**

N/A



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