

## Department of Planning and Budget 2015 Fiscal Impact Statement

**1. Bill Number:** HB1895

<b>House of Origin</b>	<input type="checkbox"/> Introduced	<input type="checkbox"/> Substitute	<input checked="" type="checkbox"/> Engrossed
<b>Second House</b>	<input checked="" type="checkbox"/> In Committee	<input type="checkbox"/> Substitute	<input type="checkbox"/> Enrolled

**2. Patron:** Cox

**3. Committee:** Finance

**4. Title:** Additional financial/administrative authority for certain public institutions of higher education.

**5. Summary:** Permits the board of visitors or other governing body of any public institution of higher education that has entered into and successfully renewed a memorandum of understanding with the appropriate Cabinet Secretary or Secretaries to exercise, with some variation, (i) additional authority in the functional areas of information technology, procurement, and capital projects and (ii) the financial operational authority of covered institutions that have entered into management agreements, except for sum sufficient authority for nongeneral funds. Under current statute, such boards of visitors and governing bodies are limited to exercising authority in two of the three functional areas of information technology, procurement, and capital projects. The bill also describes the conditions for renewal and revocation of such authority and requires the accounts of each institution granted such authority to be audited by the Auditor of Public Accounts.

**6. Budget Amendment Necessary:** Yes, Section 3 needs to be amended to transfer any interest earned by the Level II schools on tuition and fee revenues to the general fund. At present, the budget assumes all interest earned on tuition and fees is deposited to the general fund. If not done, then there will be a general fund revenue reduction in FY 2016 of several millions of dollars.

**7. Fiscal Impact Estimates:** Preliminary. See item 8.

**8. Fiscal Implications:** One section of this legislation codifies similar authority provided in the Appropriation Act (Section 4-9.02) allowing Level II institutions of higher education to be given decentralized authority in the functional areas of information technology, procurement and capital projects. Because of this, this portion of the legislation should not have any new fiscal implications.

A new decentralized functional authority given to Level II institutions of higher education through this legislation relates to financial operations. At present, this functional authority is only given to the Level III institutions of higher education (University of Virginia, William and Mary, Virginia Tech, and Virginia Commonwealth University). Decentralization of

financial operations will allow Level II institutions to report expenditures periodically instead of in real time to the state accounting system, as well as allow them to retain all cash they collect, including interest, instead of depositing the cash into the state treasury.

At the minimum, by retaining all cash, several millions of dollars of interest earned on tuition and fee revenues will not be deposited to the general fund in FY 2016 unless the budget is amended to transfer this interest to the general fund (see item 6 above). At present all interest from tuition and fee revenues generated by all higher education institutions is deposited to the general fund.

It is also anticipated this action will result in the following issues as have been experienced with the Level III institutions: 1) due to less frequency of reporting financial information, up-to-date information is not readily available when calculating financial needs associated with statewide or higher education system issues (e.g., impact of utility increases); 2) with less cash deposited to the state treasury, the state has less flexibility to utilize interfund borrowing to responsibly manage the Commonwealth's cash flow (especially important during any revenue declines); and, 3) additional administrative actions must be taken by the Department of Accounts (DOA) to accommodate these institutions. If Level II higher education institutions automate the interface of financial information between themselves and the state budgeting system, DOA can absorb these administrative costs. Without automation, DOA will require additional personnel and related support costs to accommodate the provisions of this legislation.

Finally, this legislation specifically prohibits the Level II institutions the authority for sum sufficient appropriation of all nongeneral funds. Although the language reversing this authority for Level II institutions utilizes authority provided to Level III institutions, it potentially creates a conflict with existing budgetary authority and reporting requirements.

At present, all higher education institutions have sum sufficient appropriation authority for nongeneral funds in the auxiliary and sponsored programs budgetary programs. This language would take that authority away from Level II institutions. In addition, the language states that Level II institutions do not have to provide nongeneral fund revenue estimates for budget development related to sum sufficient appropriation or report actual revenues collected. Without revenue estimates for the auxiliary and sponsored programs areas, there will be no justification for the appropriations presently provided in the budget for those areas.

- 9. Specific Agency or Political Subdivisions Affected:** Virginia public institutions of higher education, DOA, Auditor of Public Accounts, Joint Legislative and Audit Review Commission, and Secretaries of Finance, Administration, and Technology

- 10. Technical Amendment Necessary:** No

- 11. Other Comments:** None.