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COMMITTEE REPORT

April 26, 2018

**H. 5042**

Introduced by Reps. Felder and Allison

S. Printed 4/26/18--S.

Read the first time March 27, 2018.

**THE COMMITTEE ON EDUCATION**

To whom was referred a Bill (H. 5042) to amend Section 59‑20‑90, Code of Laws of South Carolina, 1976, relating to the statewide program for identifying public school district fiscal practices and budgetary conditions, etc., respectfully

**REPORT:**

That they have duly and carefully considered the same and recommend that the same do pass:

HARVEY S. PEELER, JR. for Committee.

**STATEMENT OF ESTIMATED FISCAL IMPACT**

**Explanation of Fiscal Impact**

**Amended by the House Education K-12 Subcommittee on March 6, 2018**

**State Expenditure**

The amended bill makes changes to provisions enacted by Act 23 of 2017, which required the Department of Education (Department) to work with district superintendents and finance officers to develop a statewide program, which includes a series of criteria that establishes three escalating levels of fiscal and budgetary concern. These levels are fiscal watch, fiscal caution, and fiscal emergency. The bill makes changes to the criteria for declaring fiscal watch, fiscal caution, and fiscal emergency, and to the appeals procedures. It also requires the development of a recovery plan, adds all other charter school sponsors in addition to the previously specified statewide charter school district, and suspends the requirement to place a district on fiscal watch, caution, or emergency due to failure to maintain a general fund reserve of at least one month for two fiscal years after any state-implemented midyear budget cut, or should the state continue to fund at the current base student cost or reduce the base student cost below the appropriation provided in the previous fiscal year.

**Department of Education.** The department indicates thatthe changes made by this bill as amended will not result in any additional expenditure impacts beyond those it is already experiencing as a result of the implementation of Act 23 of 2017. Therefore, this bill will have no expenditure impact on the general fund, federal funds, or other funds for the Department of Education.

Frank A. Rainwater, Executive Director

Revenue and Fiscal Affairs Office

**A** **BILL**

TO AMEND SECTION 59‑20‑90, CODE OF LAWS OF SOUTH CAROLINA, 1976, RELATING TO THE STATEWIDE PROGRAM FOR IDENTIFYING PUBLIC SCHOOL DISTRICT FISCAL PRACTICES AND BUDGETARY CONDITIONS THAT CAN COMPROMISE THE FISCAL INTEGRITY OF THE DISTRICTS AND FOR ADVISING THE DISTRICTS ON APPROPRIATE CORRECTIVE ACTIONS, SO AS TO REVISE RELATED PROCEDURES.

Be it enacted by the General Assembly of the State of South Carolina:

SECTION 1. Section 59‑20‑90 of the 1976 Code is amended to read:

“Section 59‑20‑90. (A) The State Department of Education shall work with district superintendents and finance officers to develop and adopt a statewide program with guidelines for:

(1) identifying fiscal practices and budgetary conditions that, if uncorrected, could compromise the fiscal integrity of a school district; and

(2) advising a district identified under item (1) to take appropriate corrective actions.

(B) The program must include a series of criteria that the department shall use to establish three escalating levels of fiscal and budgetary concern, which must be ‘fiscal watch’, ‘fiscal caution’, and ‘fiscal emergency’.

(C) ‘Fiscal watch’ is the first level and lowest level of concern.

(1)(a) The State Superintendent of Education shall declare fiscal watch if:

(~~a~~i) ~~he determines, within his discretion, that a district declared to be in fiscal watch has not acted reasonably to eliminate or correct practices or conditions that prompted the declaration and has determined that a state of fiscal watch is necessary to prevent further decline; and~~ upon review of the district’s annual audit, the department determines financial practices occurring outside of acceptable accounting standards exist;

(ii) the district submits an annual audit more than sixty days after the December first deadline provided in Section 59‑17‑100;

(~~b~~iii) there is any type of ongoing, related investigation by any state or federal law enforcement agency or any other investigatory agency of the State;

(iv) an outside, independent auditing firm declares that a school district’s financial records are unauditable; or

(v) the department identifies significant deficiencies, material weaknesses, direct and material legal noncompliance, or management letter comments which, in the opinion of the department, the aggregate effect of the reported issues has, or could have, a significant effect on the financial condition of the district.

(b) If a district meets the criteria in (A), the State Superintendent shall declare a fiscal watch only after prior notification with the district board chairman and district superintendent, who must begin immediate consultation with the chief financial officer of the district. The watch notification must include steps the district may take to avoid the declaration.

(2) After prior written notification with the district board chairman and superintendent, the State Superintendent of Education may declare fiscal watch if:

(a) an independent, outside auditing firm notifies the department that the district is not operating under generally accepted accounting principles; or

(b) the district does not maintain a general reserve fund of at least one month of general fund operating expenditures of the previous two completed fiscal years, or has not made progress in increasing the general reserve fund balance in accordance with department guidelines to meet at least one month of general fund operating expenditures within the previous two completed fiscal years.

(D) ‘Fiscal caution’ is the second level of concern, and is the intermediate level of concern.

(1)(a) After ~~consulting~~ consultation with the local board ~~of education,~~ chairman and superintendent, the State Superintendent may declare fiscal caution if the district was previously on fiscal watch and if:

(i) the district’s audits have been reviewed and there are conditions observed that could result in a declaration of fiscal emergency; or

(ii) the outside, independent auditing firm conducting the district’s audit reports to the State Superintendent that any conditions or practices exist that could result in a declaration of fiscal emergency.

(b) The written communication~~, verbal communication, or both,~~ between the department and the school district constitutes the consultation with the local board ~~of education~~ chairman required in subitem (a).

(c) The notice must be sent to the board chairman and district superintendent who must begin immediate consultation with the district Chief Financial Officer. The notice must include, but not be limited to, an explanation of the circumstances that led to the decision and if the school district may take any steps to avoid the declaration.

(2) The State Superintendent shall declare a school district to be in a state of fiscal caution if the district previously was on fiscal watch and if:

(a) upon review of the district’s annual audit or otherwise with notice from an independent, outside accounting firm, the department determines financial practices occurring that are outside of acceptable accounting standards exist;

(b) a district submits an annual audit more than sixty days after the December first deadline as provided in Section 59‑17‑100;

(c) ~~the department discovers any other fiscal practices or conditions that could lead to a declaration of fiscal emergency through the examination of a school district’s past two years’ audits;~~

~~(d)~~ the department reviews a district’s annual audit and determines the district is not maintaining the mandatory minimum of one month of general fund operating expenditures in its general reserve fund or has not made progress in increasing the general reserve fund balance in accordance with department guidelines to meet at least one month of general fund operating expenditures within the previous two completed fiscal years;

(~~e~~d) an outside, independent auditing firm declares that a school district’s financial records are unauditable;

(~~f~~e) the department identifies significant deficiencies, material weaknesses, direct and material legal noncompliance or management letter comments which, in the opinion of the department, the aggregate effect of the reported issues has a significant effect on the financial condition of the district; or

(~~g~~f) there is an ongoing investigation being conducted by any federal or state agency, law enforcement or otherwise, ~~with regard~~ related to the district’s finances or local board of trustees.

(3) The State Superintendent shall declare a school district to be in a state of fiscal caution if the department discovers any other fiscal practices or conditions that could lead to a declaration of fiscal emergency through the examination of a school district’s past two years’ audits.

(4) The State Superintendent shall notify the district in writing that a declaration of fiscal caution for the district is pending, the conditions leading to the declaration, and shall request a written ~~proposal~~ recovery plan for correcting the conditions that led to fiscal caution and for preventing further fiscal difficulties that could lead to fiscal caution. This notification must be given within at least ten business days, excluding district holidays that are five days or more, before the effective date of the declaration. The notice must be sent to the board chairman, district superintendent, and chief financial officer, and must include, but not be limited to, an explanation of the circumstances that led to the decision and if there are any steps the school district could take to avoid the declaration.

(~~4~~5) While a district is under a declaration of fiscal caution:

(a) the department shall:

(i) visit and inspect the district;

(ii) provide technical assistance in implementing ~~proposals~~ the board’s recovery plan; and

(iii) make recommendations concerning the board’s ~~proposals~~ recovery plan;

(b) the department may order a performance audit of the district at the department’s expense and later may require full reimbursement from the district, which the district shall provide within sixty days after the request is made; and

(c) the district must:

(i) be required to provide written ~~proposals~~ recovery plans for discontinuing or correcting the practices and conditions that led to the declaration of fiscal caution to the department; and

(ii) be given approximately sixty days to provide a written ~~proposal~~ recovery plan, which the department may extend an additional thirty days at the request of the district, provided that no additional extension may be granted under any circumstances.

(~~5~~6) If the State Superintendent finds a district has not made reasonable ~~proposals~~ recovery plans or taken action to correct the practices or conditions that led to the declaration, he may report to the State Board of Education that a declaration of fiscal emergency is necessary to prevent further fiscal decline.

(~~6~~7) A district under a declaration of fiscal caution must not be released from fiscal caution in the same fiscal year in which the declaration was made, but may be released the following fiscal year if the department determines that the corrective actions have been or are being successfully implemented. The State Superintendent shall notify the local board chairman, district superintendent, and chief financial officer of the release of the district from fiscal caution.

(8) The district board of trustees may appeal a declaration of a fiscal caution to the State Board of Education within ten days after the declaration, and the state board must hold a hearing on the appeal within thirty days after the filing of the appeal or at the next regularly scheduled State Board of Education meeting, whichever is later. However, the district shall continue to work with the department in the manner provided by this subsection when a fiscal caution is declared pending determination of the appeal.

(E) The third and most severe level of concern is ‘fiscal emergency’. The State Superintendent of Education shall declare fiscal emergency if:

(1) a district under fiscal caution fails to submit an acceptable recovery plan within one hundred twenty days or fails to submit an updated recovery plan when required;

(2) the department finds that a district under fiscal caution is not complying with an original or updated recovery plan and determines that fiscal emergency is necessary to prevent further decline;

(3) a district is at risk of defaulting on any type of debt, to include, but not be limited to, tax anticipation notes, general obligation bonds, or lease‑purchase installment agreements;

(4) a district has previously been under fiscal watch, fiscal caution, or any combination of fiscal watch and fiscal caution for a total of three fiscal years ~~collectively, regardless of whether these three years are continuous~~ within the previous five fiscal years; or

(5) he determines that a declaration of fiscal emergency is necessary to correct the district’s fiscal problems and to prevent further fiscal decline.

(6)(a) While a district is under a declaration of fiscal emergency, the department shall:

(i) visit and inspect the district;

(ii) provide technical assistance in implementing ~~proposals~~ the board’s recovery plans; and

(iii) make recommendations concerning the ~~district~~ board recovery plans.

(b) In addition to the provisions of subitem (a), while a district is under a declaration of fiscal emergency, the district must:

(i) be required to provide written ~~proposals~~ recovery plans for discontinuing or correcting the practices and conditions that led to the declaration of fiscal emergency to the department; and

(ii) be given approximately sixty days to provide a written ~~proposal~~ recovery plan, which the department may extend for an additional thirty days at the request of the district, provided that no additional extension may be granted under any circumstances.

(7) If the State Superintendent finds a district has not made reasonable ~~proposals~~ recovery plans or taken action to correct the practices or conditions that led to the declaration, the Superintendent may make a recommendation to the State Board of Education that the department take over financial operations of the district for the fiscal year in which a fiscal emergency is declared as part of the technical assistance offered to the district. Upon approval of the recommendation by the State Board of Education, the department may maintain financial operations until the district is released from a fiscal emergency.

(8) A district under a declaration of fiscal emergency must not be released from fiscal emergency in the same fiscal year in which the declaration was made, but may be released the following fiscal year if the department determines that the corrective actions have been or are being successfully implemented. The State Superintendent shall notify the local board chairman, district superintendent, and chief financial officer of the release of the district from fiscal emergency.

(9) The district board of trustees may appeal a declaration of a fiscal emergency to the State Board of Education within ten days after the declaration, and the state board shall hold a hearing on the appeal within thirty days after the filing of the appeal or at the next regularly scheduled state board meeting, whichever is later. However, the district shall continue to work with the department in the manner provided by this subsection when a fiscal emergency is declared pending determination of the appeal.

(F) The provisions of this section are supplemental to other provisions of law, but to the extent the provisions of this section conflict with another provision of law, the provisions of this section must prevail.

(G) The provisions of this section also apply to the statewide charter school district, any institution of higher education that authorizes charter schools, or any entity that registers to become a charter school sponsor.

(H) The requirements of placing a district on fiscal watch, caution, or emergency due to failure to maintain a general reserve fund of at least one month of general fund operating expenditures must be suspended for the two fiscal years following any state‑implemented midyear budget cut, or should the State continue to fund at the current base student cost or reduce the base student cost, below the appropriation provided in the previous fiscal year.”

SECTION 2. This act takes effect upon approval by the Governor.

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