



SOUTH CAROLINA REVENUE AND FISCAL AFFAIRS OFFICE
STATEMENT OF ESTIMATED FISCAL IMPACT
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Bill Number:	S. 0298	Amended by Senate Finance on February 21, 2019
Author:	Sheheen	
Subject:	Higher Ed. Funding	
Requestor:	Senate Finance	
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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 change in expenditures each year thereafter will be based on the projected increase or decrease in General Fund revenue.

This bill will increase General Fund expenditures by up to \$25,000,000 beginning in FY 2020-21 for funding of the Higher Education Facilities Repair and Renovation Fund.

This bill will reduce General Fund and Lottery appropriations for merit scholarships by a total of \$5,371,000 in FY 2022-23, \$8,966,000 in FY 2023-24, \$10,867,000 in FY 2024-25, and \$13,030,000 in FY 2025-26, because it raises the qualifications for LIFE and Palmetto Fellows Scholarships.

This bill will increase General Fund expenditures by \$5,300,000 in FY 2020-21 and \$5,000,000 in FY 2021-22 for additional appropriations for need-based grants.

This bill will increase General Fund expenditures by at least \$3,958,624 in FY 2021-22 to achieve equal funding to the Commission on Higher Education (CHE) and SC Tuition and Grants Commission (SCTG) for need-based funding. This bill will increase General Fund expenditures by an undetermined amount beginning in FY 2022-23 for the increase in appropriations for need-based grants due to the increase in the higher education price index (HEPI).

This bill will reallocate \$6,669,800 from merit scholarships to need-based scholarships beginning in FY 2022-23 by changing requirements for the LIFE and Palmetto Fellows stipends for sophomores.

This bill will reallocate \$1,974,300 in scholarship and grant funding from students attending independent colleges to students attending public institutions of higher learning beginning in FY 2021-22.

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 concerning the implementation of a statewide college application system.

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 approximately \$71,955,000 beginning in FY 2019-20. Of this total, \$47,454,770 will be reallocated from the General Fund, \$10,200,000 will be reallocated from the 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 potentially would reduce available General Fund revenue by \$10,200,000.

Explanation of Fiscal Impact

Amended by Senate Finance on February 21, 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, after the amount apportioned to the Trust Fund for Tax Relief is deducted. 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. The change in expenditures each year thereafter will be based on the projected increase or decrease in General Fund revenue.

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. CHE has requested additional information from the 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 and funding of the Higher Education Opportunity Trust 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. 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 carry out these responsibilities. 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 colleges. The General Assembly will appropriate at least \$25,000,000 annually to the fund beginning in FY 2020-21. 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 remainder of the \$25,000,000 will be appropriated by the General Assembly. The Department of Revenue and the retailers affected by this provision are currently in litigation to determine tax liability. Because the amount collected through these audits will be determined by the outcome of the litigation, the total amount to be collected is undetermined. Therefore, this section of the bill may potentially increase General Fund expenditure by \$25,000,000 annually beginning in FY 2020-21, less any revenue resulting from the audit.

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 SBTCE. 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. SBTCE will be responsible for determining the manner in which a portion of this fund will be distributed among the public technical colleges. This subarticle requires SBTCE to review requests for funds from public technical colleges and report on the utilization of funds. 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 this bill raises the grade point average (GPA) requirement for both the LIFE and HOPE Scholarship from 3.0 to 3.3. In addition, it raises the GPA requirements for the Palmetto Fellows Scholarship from 3.5 to 4.0 for students in the top 6 percent of their class, and from 4.0 to 4.3 for students that qualify without class rank. These new GPA requirements apply to students graduating after FY 2020-21. Based on data supplied by CHE, RFA estimates that the new minimum GPA requirements will reduce scholarship expenditures by the following amounts:

- \$5,371,000 in FY 2022-23
- \$8,966,000 in FY 2023-24
- \$10,867,000 in FY 2024-25
- \$13,030,000 in FY 2025-26 and each year thereafter.

Section 4. This section of the bill requires the General Assembly to increase appropriations to the need-based grant program for FY 2020-21 and FY 2021-22. 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 change in GPA requirements 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 2020-21 and \$5,000,000 for FY 2021-22.

Section 3 of this bill applies to students graduating after FY 2020-21. Hence, the first class of students affected by the Higher Education Opportunity Act would graduate in FY 2021-22 and receive their scholarships beginning in FY 2022-23. Therefore, this bill will not create a reduction in scholarship expenditures until FY 2022-23. Because this bill stipulates an increase in appropriations for need-based grants for FY 2020-21 and FY 2021-22, these amounts will be determined by the minimum required in this section. Therefore, this section of the bill will increase General Fund expenditures for need-based grants by \$5,300,000 in FY 2020-21 and \$5,000,000 in FY 2021-22.

Section 5A. This section stipulates that beginning in FY 2021-22, the General Assembly must appropriate equal amounts to the South Carolina Tuition Grants Commission (SCTG) and CHE for need-based grants. This includes both General Fund appropriations and lottery funds. The amounts appropriated must not be less than the amount either agency received in FY 2020-21. For FY 2018-19, CHE and SCTGC received \$32,000,000 and \$35,958,624 respectively for need-

based grants. The provisions of this bill would require a minimum increase of \$3,958,624 in appropriations for need-based grants to CHE in FY 2021-22.

Beginning in FY 2022-23, the appropriations must be increased annually. This increase will be based on the percentage increase in the higher education price index (HEPI) for the immediately preceding fiscal year, but may not exceed 2.75 percent. Considering the minimum increase in appropriations to CHE in order to achieve equal funding, appropriations to CHE and SCTG for need-based grants would total \$71,917,248 in FY 2021-22. 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. If appropriations for need-based grants total \$71,917,248 in FY 2021-22, and the annual HEPI increase is 2.4 percent, this section of the bill would increase expenditures by approximately \$1,726,000 each year beginning in FY 2022-23. However, RFA is unable to determine appropriations for FY 2021-22. Therefore, the expenditure impact of this section is undetermined.

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 HEPI 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 5B. This section of the bill affects the portion of the South Carolina Children's Education Endowment allocated for scholarships and grants for students attending independent colleges in the state. During FY 2017-18, allocations for scholarship and grants to students at independent colleges totaled \$1,974,300. Currently, 50 percent of these funds are used to provide need-based grants through SCTG and 50 percent are used to provide Palmetto Fellows Scholarships. These funds will be reallocated beginning in FY 2021-22 to provide scholarships for students attending public institutions. The funds will continue to be distributed equally between need-based grants and Palmetto Fellows Scholarships and it is assumed that the method of disbursement will remain the same. Therefore, this section of the bill will have no expenditure impact on scholarship funding.

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. In FY 2017-18, stipend awards to sophomores receiving the Palmetto Fellows or LIFE Scholarships totaled approximately \$6,669,800. Therefore, this bill would reallocate approximately \$6,669,800 from merit scholarships to need-based scholarships beginning in FY 2022-23.

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. Subsections A and B repeal sections of the code which provide General Funds to supplement funds appropriated for Palmetto Fellows and LIFE scholarships in order to provide scholarships for all students that qualify. According to the Comptroller General's year end press releases from the previous three fiscal years, there have been no open ended appropriations for Palmetto Fellows or LIFE scholarships. Therefore, this section of the bill will have no expenditure impact on the General Fund.

Commission on Higher Education. Subsection D requires CHE to develop policy to reduce award amounts pursuant to the amendments of this section. 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 8. 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 9A. 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 9B. 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.

Section 10. This section of the bill allows colleges and universities to create an Enterprise Division for its institution's auxiliary activities that do not receive funding from the state or from tuition revenue. The board of trustees of the institution will have expanded authority with respect to the Enterprise Division. In addition, the bill removes some of the review process for permanent improvement projects. CHE surveyed the institutions concerning a similar bill during FY 2018-19. At that time, the institutions reported that there may be some cost savings associated with this change. However, they were not able to quantify those savings. Any increase in expenditures due to this section of the bill would be managed within existing appropriations.

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. The maximum amount of revenue that may be credited to the trust fund each year is \$325,000,000. This maximum will be increased each year by the annual percentage increase in the HEPI.

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 Department of Revenue and the retailers affected by this provision are in litigation to determine tax liability. We are unable to forecast the amount that will be collected pursuant to the settlement of the litigation. Therefore, the revenue impact for this section is undetermined.

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 \$65,300,000 in FY 2019-20. Of this total, \$40,800,000 would be reallocated from the General Fund from the 4 percent sales tax. Because the provisions transfer sales and use tax and do not restrict the transfer to state taxes, we have assumed this transfer will also reallocate local sales and use tax to the fund. 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. Reallocations from the 1 percent tax allocated to the Homestead Exemption Fund would amount to an estimated \$10,200,000. 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. The amended bill specifically exempts revenue of the Education Improvement Act (EIA) fund from transfer.

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. According to the South Carolina Department of Revenue, admissions taxes collected by public institutions of higher learning amounted to \$3,618,955 during FY 2017-18. Based on the Board of Economic Advisors' General Fund revenue forecast of admissions tax revenue issued on February 14, 2019, this

amount is expected to be an estimated \$3,717,000 in FY 2019-20. This section of the fiscal impact statement has been update to include additional information from 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, the total amount to be credited to the Higher Education Opportunity Trust Fund under this section is undetermined but is expected to be approximately \$71,955,000.

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. 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 Department of Revenue and the retailers affected by this provision are currently in litigation to determine tax liability. The amount collected through these audits will be determined by the outcome of the litigation. Therefore, the revenue impact of this subarticle is undetermined.

Section 10. This section of the bill exempts agencies from the provisions of the South Carolina Code of Laws relating to the sale of surplus property and directs that the proceeds be retained by the Enterprise Division. Generally, proceeds from the sale of surplus state property are retained by the Department of Administration. However, Proviso 93.19 of the FY 2018-19 Appropriations Act exempts higher education institutions from this provision. Therefore, this section will have no revenue impact on the General Fund. This section of the bill may increase revenue of the Enterprise Division. However, because it is unknown what projects will be undertaken by the Enterprise Divisions, this increase is undetermined.

In summary, this bill will reallocate at least \$68,237,770 to the Higher Education Opportunity Trust Fund beginning in FY 2019-20. Total Other Funds of \$10,200,000 from the Homestead Exemption Fund 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. In addition, this bill will reallocate at least \$25,000,000 to the Higher Education Facilities Repair and Renovation Fund. The total impact of this bill is pending additional analysis of tax revenue by RFA.

Local Expenditure

N/A

Local Revenue

N/A

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 SBTCE. 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



Frank A. Rainwater, Executive Director