

NORTH CAROLINA GENERAL ASSEMBLY

LEGISLATIVE FISCAL NOTE

BILL NUMBER: House Bill 401 (Second Edition)

SHORT TITLE: Community College System Office Flexibility

SPONSOR(S): Representatives Rogers; Dockham, Esposito, Gillespie, Gulley, Kiser, McLawhorn, Morris, Preston, Sherrill, and Wainwright

FISCAL IMPACT

	Yes (X)	No ()	No Estimate Available ()		
	<u>FY 2001-02</u>	<u>FY 2002-03</u>	<u>FY 2003-04</u>	<u>FY 2004-05</u>	<u>FY 2005-06</u>
REVERSIONS (General Fund Credit Balance)					
Salary and Benefits	(\$650,676)	(\$680,607)	(\$713,957)	(\$749,654)	(\$787,137)
Non-Salary Reversions	(\$366,164)	(\$373,121)	(\$381,330)	(\$390,482)	(\$400,635)
Total Est. Reversions	(\$1,016,840)	(\$1,053,728)	(\$1,095,287)	(\$1,140,136)	(\$1,187,772)

POSITIONS: Unable to estimate.

**PRINCIPAL DEPARTMENT(S) &
PROGRAM(S) AFFECTED:** Community College System Office

EFFECTIVE DATE: Bill becomes effective when it becomes law

BILL SUMMARY: House Bill 401 amends GS 115D-3 to allow the President of the Community Colleges System to (1) establish and abolish employment positions outside the Office of State Personnel, (2) move appropriated funds between budget codes, (3) use up to 10% from salary and fringe accounts for non-salary purposes, (4) with authorization of Community Colleges Board to employ consultants to conduct legislatively-directed studies and to revise operating formulae, and (5) to retain overhead receipts and not revert them. *Source: Bill Digest H.B. 401 (4/16/01).*

ASSUMPTIONS AND METHODOLOGY:

1. System Office Flexibility will not result in increased General Fund Appropriations.
2. The impact of the bill will be to reduce or eliminate Community College System Office reversions. This will reduce the General Fund Credit Balance each year.

3. In order to calculate the potential loss in reversions from lapsed salaries and benefits, the average reversion from lapsed salary and fringe accounts for the past five years was determined.
4. The average reversion from lapsed salary and fringe accounts for the past five years has been inflated based on the projected growth estimated for salaries in the Fiscal Research Division's Fiscal Note Inflation Rate Estimates.
5. In order to calculate the potential loss in reversions from the System Office other than lapsed salaries and fringe accounts, the average total System Office reversion for the past five years was determined.
6. The average System Office reversion less the average lapsed salary and fringe accounts reversion has been inflated based on the projected growth in the Consumer Price Index (CPI) as stated in the Fiscal Note Inflation Rate Estimates.

TECHNICAL CONSIDERATIONS:

1. The proposed bill gives the Community College System Office the authority to retain 100% of its overhead receipts for non recurring expenditures that do not impose a continuing obligation upon the state. Although overhead receipts in this case can be defined as indirect cost monies earned on federal and private contracts and grants, this definition is not spelled out in the bill. A more exact definition of overhead receipts should be included in order to avoid misinterpretation in the future.
2. The proposed bill also gives the Community College System President the ability to revise the multiple operating formulas used to determine allocations to the 58 colleges in the system. Revisions to these formulas will not result in an increased General Fund Appropriation in the year in which they are changed. However, any formula changes have the potential to significantly increase the General Fund Appropriation required to fund Community College enrollment growth.

For example, one current formula funds curriculum enrollment growth based on one instructional unit (\$42, 201) for every 19.815 full-time equivalent (FTE) students above 500 FTE enrolled in a college. Based on this formula, an enrollment increase of 100 FTE at a college with 500 FTE students would cost approximately \$213,000. (100 FTE divided by 19.815 equals 5.05. 5.05 times \$42,201 equals \$213,115.)

If the Community College President decided to change this formula to one instructional unit for every 15 FTE above 500, that same enrollment increase of 100 FTE would cost \$281,000, an increase of \$68,000.

Given that the budgeted curriculum FTE for the community colleges has increased 17.05% in the past 10 years, changes in these funding formulae have the potential to significantly increase the General Fund Appropriation required to fund enrollment

growth. This fiscal note does not include an estimate of the impact of changes to the funding formulae.

3. If the bill is enacted prior to July 1, 2001, it could impact the current year-end credit balance.

FISCAL RESEARCH DIVISION: 733-4910

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