

NORTH CAROLINA GENERAL ASSEMBLY

LEGISLATIVE FISCAL NOTE

BILL NUMBER: SB 467 Committee Substitute (CSRH-004)

SHORT TITLE: UNC/Uniform Reversion Rate

SPONSOR(S): Senators Winner, Hartsell, Smith, Warren and Perdue

FISCAL IMPACT: Expenditures: Increase (X) Decrease ()
Revenues: Increase () Decrease ()
No Impact ()
No Estimate Available ()

FUNDS AFFECTED: General Fund (X) Highway Fund () Local Fund ()
Other Fund ()

BILL SUMMARY: Amends GS 116.30.3 dealing with Management Flexibility for the University of North Carolina to change required reversion rates from historic five-year average for each "special responsibility constituent institution" to a flat 2% rate for all budget codes except for the Area Health Education Centers, which would be set at 1%. The effect is to reduce the percentage of the University budget that must be reverted each fiscal year.

EFFECTIVE DATE: 7/1/95

PRINCIPAL DEPARTMENT(S)/PROGRAM(S) AFFECTED:

The University of North Carolina's 16 constituent institutions.

FISCAL IMPACT

(millions of \$)

Table with 5 columns: FY 96, FY 97, FY 98, FY 99, FY 00. Rows include EXPENDITURES (RECURRING, NON-RECURRING) and REVENUES/RECEIPTS (RECURRING, NON-RECURRING).

POSITIONS: None

ASSUMPTIONS AND METHODOLOGY:

- 1. The budget for the next two years will be equal to the Governor's proposed continuation budget; for the following three years it will increase 3% per year with inflation.
2. The UNC campuses will continue to revert the required amounts in order to maintain their status as a Special Responsibility Constituent Institution.

3. The major cost to the State will be a decline in the year end credit balance as the amount that must be reverted is reduced by this bill. The bill has the effect, when combined with the flexibility granted under GS 116-30.2, of allowing the campuses to spend a larger share of their budget.
4. When the "Management Flexibility" legislation for UNC campuses was debated by the General Assembly in 1991, a major concern was that allowing the use of personnel funds (lapsed salaries; salary reserve) for non-personnel purposes would allow UNC to expend all of its funds and not revert any funds. Since the N.C. budget system was based on full-funding for all personnel positions, the assumption is that vacancies and turnover would provide excess funds that serve as a cushion for minor revenue shortfalls. In addition, these excess funds, when they revert, become a source for capital and other one-time expenditures, and now are a source of the savings reserve and the repairs and renovations reserve.
5. The concern of the University has been that requiring each campus to revert an amount equivalent to a historic expenditure pattern penalizes those campuses which had been reverting a higher percentage of their funds at the time the legislation was enacted. Indeed, some of the higher required percentages are at some of the smaller and medium sized schools.
6. The current (1994-95) required reversion rates on the campuses range from 1.98% at UNC-Asheville and for the Agricultural Research budget at N.C. State to 3.64% at N.C. A & T State and 3.31% at Pembroke State.
7. The current weighted average for all budget codes is 2.47%; the proposed bill would reduce the weighted average to just under 2%. Because the reversion rate for each campus is a 5-year rolling average, the weighted average rate for the system for 1995-96 is estimated at 2.63%.
8. Projected reversion rates for the next 5 fiscal years are calculated by using historic reversions, and assuming that the required reversions will be made, and that the budgets will rise by 3% annually after 1996-97.
9. The historic reversion rates will stabilize over time. The weighted average for the system will stabilize at about 2.45% in 1999-2000, or at a level approximately equal to the present 2.47%.

SOURCES OF DATA: UNC Board of Governors Report on Management Flexibility; Letter from Office of State Budget and Management setting reversion rates for 1994-95; Office of State Budget and Management data on adjusted appropriations and amounts subject to reversion.

TECHNICAL CONSIDERATIONS:

FISCAL RESEARCH DIVISION

733-4910

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Official

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