

TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE



FISCAL NOTE

HB 1547

October 16, 2019

SUMMARY OF BILL: Creates the *Student Athlete Graduation Grant Fund* (SAGGF) as a special account in the state General Fund, managed by the State Treasurer (Treasurer), for the purposes of providing graduation grants to student athletes who graduate from a public four-year postsecondary institution.

Requires on March 1, 2021, and March 1 thereafter, that each public four-year postsecondary university that participates in intercollegiate athletic competition as a member institution of the NCAA at the Division 1 level, or that participates in such competition at an equivalent level in any successor organization to the NCAA, to remit one percent of the gross revenue generated from ticket sales, merchandise sales, and broadcast licensing agreements by the institution's athletic department during the prior fiscal year for deposit in the (SAGGF).

Requires the Treasurer to publish the amount of graduation grants on the State Treasury website by May 15, 2023, and each year after, using the formula set forth in the legislation and to then remit to each compliant public four-year postsecondary institution by June 30, 2023, and each year after, a payment equal to the amount calculated by the Treasurer. Once payment is remitted, each public four-year postsecondary institution that receives such payment must provide the grant to the qualifying students beginning January 1, 2024.

Requires the Treasurer beginning in 2025 to remit a payment from the principal balance in the SAGGF to each public four-year postsecondary institution for the purpose of awarding grants in an amount equal to the amount that the institution paid into the SAGGF for the fiscal year four years prior.

ESTIMATED FISCAL IMPACT:

Increase State Revenue – Exceeds \$792,100/FY20-21 and Subsequent Years/SAGGF

**Decrease State Revenue – Exceeds \$158,600/FY20-21 and Subsequent Years/
Locally Governed Institutions
Exceeds \$633,500/FY20-21 and Subsequent Years/
University of Tennessee System**

Increase State Expenditures –

**\$63,200/FY20-21 and Subsequent Years/General Fund
Exceeds \$319,200/FY20-21 and Subsequent Years/
Locally Governed Institutions
Exceeds \$159,600/FY20-21 and Subsequent Years/
University of Tennessee System
Exceeds \$792,100/FY24-25 and Subsequent Years/SAGGF**

Other Fiscal Impact – The amount of gross earnings income resulting from the principal investment that is required to be remitted by the Treasurer to each participating institution for the purpose of grants in FY22-23 and subsequent years will be equal to 25 percent of the total gross income earned on the investment over the previous four fiscal years. This amount will vary from year-to-year and is dependent on multiple variables; the precise amount in any given fiscal year cannot be reasonably determined.

Approximately \$45,000,000 in recurring funding for the University of Tennessee Knoxville may be jeopardized due to noncompliance with National Collegiate Athletic Association’s (NCAA) regulations. The total amount that may be jeopardized for the other two University of Tennessee (UT) institutions and the Locally Governed Institutions (LGIs) is reasonably estimated to exceed \$10,000,000 per year. In addition, there may be a recurring decrease in state revenue for UT and LGIs if institutions are unable to compete in certain athletic events.

Assumptions:

Student Athlete Graduation Grant Fund:

- An average of the previous four most recent fiscal years’ total athletic revenue generated from ticket sales, merchandise sales, and broadcast licensing agreements from each public four-year postsecondary institution that participates in the NCAA was used in this analysis in order to accurately reflect the flow of revenue generated from each category because the numbers fluctuate from year-to-year based on a team’s performance and several other non-predictable variables.
- Based on information provided by each of the locally-governed institutions (LGIs) and the University of Tennessee (UT) System, the total athletic revenue generated from ticket sales, merchandise sales, and broadcast licensing agreements averaged over the course of the four most recent fiscal years is \$15,858,577 for the LGIs and \$63,348,103 for the UT System.
- The total one percent gross of the average athletic revenue to be remitted to the SAGGF will result in a recurring decrease in state revenue currently available to the LGIs estimated to exceed \$158,586 ($\$15,858,577 \times 1.0\%$).
- The total one percent gross of the average athletic revenue to be remitted to the SAGGF will result in a recurring decrease in state revenue currently available to UT estimated to exceed \$633,481 ($\$63,348,103 \times 1.0\%$).

- The total combined one percent gross of the average athletic revenue remitted to the SAGGF from the LGIs and the UT System is estimated to result in a recurring increase state revenue to the SAGGF in an amount exceeding \$792,067 (\$158,586 + \$633,481) in FY20-21 and subsequent years.
- As a result of remittance of the one percent gross revenue to the SAGGF, there will be a decrease in funds available to each athletic program. The decrease in funding may require institutions to either decrease athletic or other expenditures or generate additional revenue from other sources. Any such change in expenditures or revenue cannot be reasonably determined.
- This legislation requires the Treasurer by June 30, 2023, and each subsequent year, to remit a payment equal to 25 percent of the total gross income earned during the previous four years from the principal investment in the SAGGF to each participating institution for the purpose of awarding grants. The first such payment will be made in FY22-23. The precise amount of this payment will vary from year-to-year and is dependent on multiple variables and cannot be reasonably determined.
- This legislation also requires the Treasurer beginning in 2025 to remit a payment from the principal investment balance in the SAGGF to each public four-year postsecondary institution for the purpose of awarding grants in an amount equal to the amount that the institution remitted to the SAGGF for the fiscal year four years prior. The legislation does not specify a date by which such payment shall be made; however, for the purposes of this fiscal note it is assumed that the initial grant payments will occur in FY24-25. Therefore, an increase in state expenditures from the SAGGF in an amount estimated to exceed \$792,067 (\$158,586 + \$633,481) in FY24-25 (and subsequent years), equal to the amount of revenue remitted to the SAGGF in FY20-21 (and subsequent years respectively) from the total combined one percent gross of the average athletic revenue from the LGIs and the UT System.

Administration of the Grants:

- Each of the six LGI's will require one new administrative position to track and report student athletes, review applicant and graduation documentation for grant eligibility, monitor potential financial aid issues, and prepare grant awards for distribution to the students who participate in each tier of NCAA Division 1 Athletics.
- The recurring increase in state expenditures beginning in FY20-21 for six LGI positions is estimated to be \$319,236 [(\$40,000 salary + \$13,206 benefits) x 6 positions].
- Each of the three UT campuses will require one new administrative position to track and report student athletes, review applicant and graduation documentation for grant eligibility, monitor potential financial aid issues, and prepare grant awards for distribution to the students who participate in each tier of NCAA Division 1 Athletics.
- The recurring increase in state expenditures beginning in FY20-21 for three UT positions is estimated to be \$159,618 [(\$40,000 salary + \$13,206 benefits) x 3 positions].
- According to the Department of Treasury, the addition of one fulltime entry level Accountant 1 position will be needed in order to establish and maintain the SAGGF.

- The recurring increase in state expenditures from the General Fund for this position is estimated to be \$63,206 (\$40,000 salary + \$13,206 benefits + \$10,000 operational expenses).

NCAA Compliance:

- According to the UT Athletic Compliance Office, there is a potential loss in funding for each institution as the legislation could be in direct violation of the National Collegiate Athletic Association's (NCAA) regulations and compliance rules.
- Any loss in funding for UT or the LGIs is dependent upon a ruling by the NCAA.
- According to the UT Athletic Compliance Office, approximately \$45,000,000 in annual funding for the University of Tennessee Knoxville may be jeopardized if this legislation is determined to be in noncompliance with NCAA regulations.
- The total amount that may be jeopardized for the other two UT institutions and the LGIs for noncompliance with NCAA regulations is reasonably estimated to exceed \$10,000,000 per year. In addition, there may be an additional decrease in state revenue for UT and LGIs if institutions are unable to compete in certain athletic events.

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.



Krista Lee Carsner, Executive Director

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