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Committees:

Education and Public Works
State House Committee
Rules

House of Representatives

State of South Carolina

January 29, 2008

Mr. Daniel Ravenel, Chairman
Higher Education Study Committee (HESC)
33 Broad Street
Charleston, SC 29401

Dear Chairman Ravenel:

Please find attached a report containing the recommendations of the State Scholarships and Grants Advisory Group for consideration by the Higher Education Study Committee (HESC). The report contains recommendations for improving the state's financial aid programs along with a detailed rationale for each recommendation.

As you are aware, the State Scholarships and Grants Advisory Group was convened to conduct an in-depth analysis of the SC Scholarship and Grant Programs and to formulate recommendations of improvement for consideration by the HESC. The Advisory Group consisted of a diverse group of individuals including public officials, institutional staff and members from the business community. Each member of the State Scholarships and Grants Advisory Group was selected based on their expertise and ability to address specific questions concerning the purposes and policies that govern the state's merit-based and need-based programs.

Members of the State Scholarships and Grants Advisory Group met four times during the months of November and December 2007. The recommendations in the report are based on a review of the data and information provided by staff of the SC Commission on Higher Education and SC Education Lottery, as well as testimonies given by parents, students, and institutional staff during the meetings. The recommendations of the State Scholarships and Grants Advisory Group are as follows:

1. Increase Need-based Grant funding to \$13.3 million dollars. The funds should come from both lottery money and general funds;
2. Amend current legislation to revise the SC Need-based Grant methodology of allocating funds. The new methodology would use Pell Grant recipient criteria instead of full-time headcount enrollment by institution;
3. Develop a marketing plan to address late submission of the Free Application of Federal Student Aid (FAFSA) from Need-based Grant eligible students. In addition, the Commission on Higher Education should request from the General Assembly a line item appropriation of \$150,000 to provide direct financial aid services to families around the State in order to ensure early submission of federal and state financial aid applications;

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4. Increase funding in the amount of \$400,000 for the Access & Equity Program as recommended by the Commission on Higher Education;
5. Develop a statewide data system to track loan indebtedness of students attending in-state colleges and universities;
6. Increase the number of residents in South Carolina with a certificate or degree consisting of three major parts: 1) support the Education and Economic Development Act (EEDA); 2) increase access to higher education; and 3) establish a Study Committee to ensure that the state remains responsive to changes in its economy;
7. Increase the minimum GPA requirements for continued eligibility for the Palmetto Fellows Scholarship (3.0 to 3.25), the LIFE Scholarship (3.0 to 3.12). The SC HOPE Scholarship will remain at 3.0;
8. Amend Section 59-142-40 of the SC Code of Laws to establish a methodology that will include a formula for the distribution of Need-based Grants to be revised from one based on undergraduate enrollment to one based on SC resident Pell Grant recipients at each public college or university; and
9. Improve the Lottery Tuition Assistance Program by: 1) increasing the total amount of funding for the LTAP; and 2) inserting language into the existing section of the Lottery Act 59-150-360 of the SC Code of Laws to allow any remaining funding up to the maximum award for LTAP to be used towards a book allowance (not to exceed \$300).

If you have any questions concerning any of the recommendations by the State Scholarships and Grants Advisory Group as listed above, please do not hesitate to contact me at (803) 734-3012 or Dr. Karen Woodfaulk at (803) 737-2244.

Sincerely,



Jerry N. Govan, Jr.

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Enclosure

Forward

The Higher Education Study Committee (HESC) was charged with developing a multi-year state-wide strategic plan for higher education to meet the needs of the state. In doing so, HESC was to consider five categories of issues concerning higher education (Institutional Missions and Academic Programs and Planning, Enrollment, Funding and Institutional Cost, Buildings, Facilities and Information Technology, and Organization and Plan Implementation) as set forth previously by the Governor's Task Force on Higher Education, which was established through Executive Order 2006-01 and completed its work with a report released in September 2006. An additional category regarding recommendations for all state supported higher education scholarship and grant programs whether funded through the Education Lottery or the State General Fund was also included by the HESC for consideration.

The State Scholarships and Grants Advisory Group was developed to provide a more in-depth analysis and to formulate recommendations concerning the SC Scholarship and Grant Programs for consideration by the HESC. The Advisory Group included public officials and members from the business community who shared information and their best judgment about the purposes and policies that govern the state's merit-based and need-based programs. Membership of the group consisted of: Representative Jerry Govan (Chairman), Mr. J. Boone Aiken, III (Assistant Chairman), Ms. Cindy Mosteller (Commissioner, SC Commission on Higher Education), Dr. Ann Crook (President, Orangeburg-Calhoun Technical College), Dr. Baron Holmes (Project Director, State Budget and Control Board), Mr. Maceo Nance (Director of Community and Rural Planning & Development, SC Department of Commerce), Mr. Torlando Childress (Vice President, SC Community Bank), and Senator John W. Matthews (SC General Assembly). Each member of the State Scholarships and Grants Advisory Group was selected based on their expertise to address the following questions concerning the SC State Scholarship and Grant Programs:

1. What are the objectives of South Carolina's current financial aid programs?
2. Assuming an overall state goal of increasing educational access and achievement, how could these programs be optimized to have the greatest effect?
3. What is the effect of aid programs on retaining graduates in South Carolina?
4. What is an appropriate balance between merit-based and need-based aid?
5. What are the criteria of affordable higher education in South Carolina?
6. Should the determination of "affordability" include consideration of student debt, all sources of a student's financial and other support, and the availability of scholarships?

The State Scholarships and Grants Advisory Group met four times during the months of November and December 2007 to review issues regarding the state's merit-based and need-based programs. During the first meeting held on November 14, 2007, members of the Advisory Group addressed underlying questions concerning the state's current financial aid programs as listed above. In an effort to address these questions, members of the Advisory Group solicited testimonies from parents and students who are beneficiaries of one or more of the State's scholarships and grants: Mr. Jeremy Rogers (LIFE Scholarship recipient at SC State University), Mr. Samir Panuelker (Palmetto Fellows Scholarship recipient at USC-Columbia), Ms. Audrey Witherspoon (parent of a Need-based Grant recipient), and Mr. Terry Wolfer (parent of a Palmetto Fellows Scholarship recipient). The parents and students provided members of the Advisory Group with information concerning the impact of state scholarship and grant funding on each student's ability to attend and pay for college in South Carolina as well as information regarding student loan indebtedness across the state. Based on the testimonies, it was concluded that the SC Scholarship and Grant Programs are helping a number of students to enroll in college in the state. However, the testimonies also highlighted the fact that consistent increases in tuition

have left students in the state with a significant amount of unmet need to pay for their total cost of attendance.

For the November 20, 2007 meeting, the Advisory Group invited institutional representatives from around the state to provide testimonials regarding the state of financial aid in South Carolina. Representing each of the four sectors in the state were: Ms. Sandra Davis (Director of Financial Aid at SC State University), Ms. Ellen Green (Director of Financial Aid at Trident Technical College), Ms. Lottie Otto (Access and Equity Director for Trident Technical College), Dr. Edgar Miller (Director of Financial Aid at USC-Columbia), Ms. Tabitha McAlister (Director of Financial Aid for the USC-Regional Campuses), Mr. Keith Reeves (Associate Director of Financial Aid at Clemson University), Mr. Eddie Shannon (Executive Director of SC Tuition Grants Commission), Mr. Marty Carney (Director of Financial Aid at Furman University), and Dr. Leroy Durant (Vice President for Student Development & Services at Claflin University). The underlying theme of the testimonials given by institutional staff was the substantial amount of unmet need of students attending two- and four-year colleges and universities (both public and independent) in the state. Based on the testimonies given by institutional staff, the primary conclusion of the Advisory Group centered on the need for an increase in funding for the SC Need-based Grant Program.

During each of the meetings, Commission staff provided members of the State Scholarships and Grants Advisory Group with data and information related to the Palmetto Fellows, LIFE and SC HOPE Scholarships as well as the SC Need-based Grant and Lottery Tuition Assistance Programs. Commission staff gave presentations on each of the Scholarship and Grant Programs as well as provided data and information related to whether the programs have met their intended goals since inception. In addition, Commission staff provided data and information requested by individual members of the Advisory Group including, but not limited to: data concerning the number of recipients and total amount of savings based on changes to the initial and continued eligibility requirements of the state merit-based programs; data concerning the total number of scholarship and grant recipients (by demographics and by institution) annually; total amount of disbursements for each program; data concerning retention rates for each program; and summary data from the *Summary Report on South Carolina Scholarships and Grants, 1988-2005*.

During the November 29, 2007 meeting, members of the State Scholarships and Grants Advisory Group developed a list of questions for consideration by the group, based on a review of the data and information provided by Commission staff as well as the testimonies given by parents, students, and institutional staff in the previous meetings. In addition, Mr. David Barden, Director of Marketing and Product Relations for the SC Education Lottery, gave a report to members of the Advisory Group concerning the projected lottery revenue for 2007-08. According to Mr. Barden, \$252 million (net) is projected in lottery revenue for FY 2007 and FY 2008. The questions devised by the Advisory Group centered on proposed changes to the state's merit-based and need-based programs to better assist students in the state with access and affordability to post-secondary education. For the final meeting held on December 6, 2007, the Advisory Group developed several recommendations for each of the questions devised in the previous meeting to be submitted to the Higher Education Study Committee for approval. A complete review of the State Scholarships and Grants Advisory Group's recommendations for consideration by the Higher Education Study Committee is provided on pages 1-15 of the attached document.

The Commission on Higher Education and the Higher Education Study Committee are appreciative of the public spirit that has animated so many South Carolinians to give generously of their time and experience.

**Recommendations by the State Scholarships and Grants Advisory Group
for Consideration by the Higher Education Study Committee**

1. Are the current state need-based and merit-based programs making college affordable in South Carolina?

The recent trend of reduction of the SC General Fund appropriations for higher education institutions has had a significant impact on the affordability of post-secondary education in South Carolina. For instance, during the 2005-06 fiscal year (FY), SC General Fund appropriations for higher education institutions totaled \$652 million, a reduction of approximately 4.7% from FY 1998-99. In addition, state institutions' general fund budgets were reduced from FY 2000-01 to FY 2005-06 by \$128.9 million, a decline of 16.5%. As a consequence, students have incurred significant tuition increases each academic year.

From 1998-99 to 2005-06, the average tuition and fees for undergraduate students attending two- and four-year public institutions in the state increased by 113% and 94.2% respectively. More specifically, tuition and fees increased from an average of \$1,677 to an average of \$3,579 at two-year institutions, and increased from an average of \$3,621 to an average of \$7,032 at four-year institutions in the state. At the two- and four-year independent institutions, the average tuition and fees for undergraduate students increased by 42.3% and 50% respectively. In particular, tuition and fees increased from an average of \$6,900 to an average of \$9,816 at two-year independent institutions, and increased from an average of \$9,863 to \$14,797 at four-year independent institutions in the state (see Appendix A of the *Summary Report on South Carolina Scholarships and Grants, 1988-2005* for 1995 to 2005 tuition and fees by institution, p. 47).

In addition to increasing in tuition and fees, the total cost of a college education in South Carolina has also risen.¹ The average in-state cost of attendance has steadily increased across all of the sectors since 1995, especially among the state's public and independent four-year institutions (see Figure 2 of the *Summary Report on South Carolina Scholarships and Grants, 1988-2005* for the average instate cost of attendance, p. 6).

The SC Scholarship and Grant Programs have assisted students and families with the rising cost of attending college in the state. However, significant increases in tuition have devalued the impact of the state's scholarships and grants in meeting students' total cost of attendance. For instance, Table 1 below lists LIFE Scholarship award amounts in comparison to the average cost of attendance and the average amount of tuition and fees from 1998 until 2007 for public instate institutions. Although at the public two-year institutions the LIFE Scholarship continues to cover the total costs of tuition and fees for eligible students, the same is not true for students attending the public (and independent) four-year institutions. While the cost of attendance continues to rise at all institutions in the state, the LIFE Scholarship now covers a smaller percentage of that cost. For example, for the 2003-04 academic year, the LIFE Scholarship covered 51% of the cost of attendance at public four-year institutions and 88% of tuition and fees, and in 2004-05 the LIFE Scholarship covered only 46% of the cost of attendance at public four-year institutions and 79% of tuition and fees. More recently for the 2006-07 academic year, the LIFE Scholarship only covered 37% of the cost of attendance and only 65% of

¹ The cost of attendance, as established by Title IV regulations, includes tuition, fees, living expenses, and other miscellaneous education-related expenses such as costs related to disability or dependent care (see, Appendix C for 1995 to 2006 cost of tuition for public institutions).

tuition and fees at the public four-year institutions. The percentage of cost of attendance and tuition and fees covered by the LIFE Scholarship at the independent four-year institutions was significantly less than that at the public institutions at 22% and 31% respectively.

This past summer the LIFE Scholarship as well as the Palmetto Fellows Scholarship was increased by \$2,500, providing additional financial assistance for students majoring in eligible math or science fields at the four-year institutions. Although South Carolina is a leader among the states in providing merit-based aid to students, the state lags far behind the nation and the region in providing need-based aid in comparison. As a result, South Carolina is not effectively addressing the cost of higher education for its neediest students.

Table 1: LIFE Scholarship Award as Percentage of the Cost of Attendance & Tuition and Fees (CHEMIS)

	LIFE Scholarship Public Four-year Institutions					LIFE Scholarship Public Two-year Institutions		
	Award Amount	Cost of Attendance	Percent Covered	Tuition and Fees	Percent Covered	Award Amount	Tuition and Fees	Percent Covered
1998-1999	\$2,000	\$7,157	28%	\$3,621	55%	\$1,000	\$1,314	76%
2000-2001	\$3,000	\$7,716	39%	\$3,819	79%	Cost of tuition (for 30 credit hours)	\$1,290	100%
2002-2003	\$4,700 + (books) \$300	\$8,669	58%	\$4,748	105%	Cost of tuition (for 30 credit hours) + (books) \$300	\$2,113	114%
2003-2004	\$4,700 + (books) \$300	\$9,831	51%	\$5,672	88%	Cost of tuition (for 30 credit hours) + (books) \$300	\$2,572	112%
2004-2005	\$4,700 + (books) \$300	\$10,783	46%	\$6,352	79%	Cost of tuition (for 30 credit hours) + (books) \$300	\$2,707	111%
2005-2006	\$4,700 + (books) \$300	\$11,944	42%	\$7,032	71%	Cost of tuition (for 30 credit hours) + (books) \$300	\$2,834	110%
2006-2007	\$4,700 + (books) \$300	\$13,399	37%	\$7,650	65%	Cost of tuition (for 30 credit hours) + (books) \$300	\$2,956	110%

Although state funding for merit-based programs has steadily increased over time, funding for the SC Need-based Grant Program and Lottery Tuition Assistance has not kept pace. With the introduction of the SC Education Lottery in 2002, the SC Need-based Grant appropriation did increase slightly from \$12.5 million in 2002-03 to \$15.5 million in 2003-04. Funding for the program also increased by \$800,000 in 2005-06. However, funding for the SC Need-based Grant Program remained the same for the 2006-07 academic year. In fact, \$23,720,667 was appropriated to the SC Need-based Program for the 2007-08 academic year. This is \$944,256 less than the 2006-07 amount. As a result of low funding for the program and

increases in average college tuition costs across the state, the purchasing power of the state's Need-based Grant Program has significantly declined.

A substantial burden has mounted over the last few years for low-income students as tuition at colleges and universities has grown faster than federal and state funding for scholarship and grant programs. Although with the tuition increases new financing options have developed to reduce net cost for students (e.g., expansion of loan programs using private capital, tax credits, tuition prepayment programs, and savings programs), the benefits are primarily realized by middle- or high-income students. The students who are left behind to bear the financial burden of attaining a college education are low-income students.

While the state's merit-based programs (i.e., Palmetto Fellows Scholarship and LIFE Scholarship) have eased the impact of high tuition costs making college more affordable for some students, these programs have not equalized opportunity for low-income students to meet their costs of attendance compared to their middle- and high-income peers. Research shows that state need-based grants have the potential of reducing the burden of unmet need for the average college-prepared, low-income student. Although higher state funding levels for both need-based and merit-based scholarship and grants are significantly related to higher college enrollment rates, research shows that funding for states' need-based grants has a stronger effect on enrollment rates than does increased funding for merit-based scholarships (see St. John, Chung, Musoba, & Simmons, 2004; St. John, 2005).

Given the role of tuition and state grants in determining financial access to post-secondary education for low-income students, it is crucial that South Carolina makes a sufficient investment in the SC Need-based Grant Program. It is important to note that the rising cost of tuition statewide has made it exceedingly difficult to restore the purchasing power of the SC Need-based Grant to a level sufficient to meet the original intent of the program of providing additional financial assistance to South Carolina's neediest students. As previously stated, extant research provides evidence that states' need-based aid is the primary source of financial support for equalizing financial access across all income groups. Thus, more funding for the SC Need-based Grant Program is vital to equalize the opportunity for low-income students in the state to have access to post-secondary education as well as to maintain their enrollment in college for degree completion.

Committee Recommendation: The State Scholarships and Grants Advisory Group recommends that the Higher Education Study Committee approves a proposal for an increase in funding in the amount of \$13.3 million for the S.C. Need-based Grant Program.

2. Is the current need-based and merit-based systems equitable?

The State Scholarships and Grants Advisory Group concluded that the current state merit-based and need-based programs, which include the Access & Equity Undergraduate Scholars Program, are not equitable for the following reasons:

- Allocation of funds to institutions;
- Methodology of allocation of funds;
- Insufficient Need-based Grant funding; and
- Insufficient Access & Equity funding.

- **Allocation of funds to institutions**

Need-based Grant funding is allocated based on an institution's share of the total SC resident headcount enrollment of the preceding year. As such, there is a large population of needy students who either lose out on funding or receive substantially less than their counterparts attending an institution with a larger full-time headcount enrollment population.

- **Methodology of allocation of funds**

Each academic year, all public institutions receive a specific amount of funding under the SC Need-based Grant Program. Because the funding is limited and usually not enough to cover the total cost of attendance of the majority of needy students, testimonies from college and university officials have expressed the need to change the methodology of the allocation of the Need-based Grant funds. At present, the allocation does not address the legislative intent of the SC Need-based Grant Program, which is to provide additional financial assistance to South Carolina's neediest students. There is a large population of needy students who attend institutions with a small undergraduate full-time headcount enrollment. Yet, the institutions with a large full-time headcount enrollment receive a larger percentage of Need-based Grant funding. To address the funding issue, the Commission approved a methodology based on the number of Pell Grant eligible students enrolled at each institution. The Commission on Higher Education's proposed methodology was also endorsed by the Advisory Group to alter the Need-based Grant allocation to institutions to ensure access for low-income college-qualified students. The endorsed methodology is addressed in Question 7.

- **Insufficient Need-based Grant Funding**

A Need-based Grant Survey was conducted in 2006-07 by the Commission staff to determine the actual "need" of in-state students attending college. The determination of need is based in accordance with the federal need analysis formula and provisions. The results of the Need-based Grant Survey indicated that there is substantial financial need that is not being met for South Carolina's neediest students. Sixty percent of Need-based Grant recipients did not receive additional State aid to assist with the expense of going to college during the 2005-06 academic year. Responses to the Survey demonstrated that at least 56,753 Need-based Grant/SC Tuition Grant eligible students (full-time and part-time) still had remaining need, even after all other available financial aid (i.e., scholarships and grants) had been applied to their cost of attendance (see *Summary Report on The South Carolina Scholarships and Grants*).

Insufficient Access & Equity Funding

The Access & Equity Undergraduate Scholars Program (i.e. Access & Equity Program) was designed to serve "historically underrepresented" South Carolina resident students who have proven their ability to do college-level work. The goals for this program are to: 1) address the financial needs of historically underrepresented students by structuring and maintaining state programs for undergraduate students; 2) remove barriers that inhibit transfer from two-year to baccalaureate degree granting institutions; and 3) continue to strengthen historically black colleges to ensure that they will be able to fulfill their missions as full partners in the higher education system and provide quality education programs.

The Access & Equity Program has grown to serve more underrepresented students since its implementation in 1989, yet funding has not increased to accommodate the growing number of students who enter into this program. The funding appropriated every year, \$711,613, has not

kept pace with the growing number of students entering into this program or has it kept pace with the increase in cost of attendance. The Commission on Higher Education has requested additional funding each year, but has yet to receive an increase in funding for the program.

As the State faces workforce shortages in health care, particularly nursing, lawmakers need to address under representation of racial and ethnic minorities, as well as shortages in male representation within certain sectors of the healthcare profession. To address these issues, the Commission on Higher Education seeks to expand the existing Access & Equity Program to establish a statewide partnership of universities and colleges whose goal is to build a more diverse health care workforce by increasing the number of underrepresented males in nursing/health care. These additional funds will provide incentives for institutions to focus on projects and/or activities that address priority issues (e.g., The Recruitment of African-American Males into Health Care) affecting minority participation and achievement in higher education. As such, the Commission on Higher Education has requested an additional \$400,000 in recurring funds to expand the Access & Equity Program.

Equity in Funding of Need-based and Merit-based Programs

The cost of higher education has risen substantially in South Carolina since the Need-based Grant was introduced in 1996. Tuition and fees have risen 132% since 1995-96 for students attending public four-year institutions. At the two-year public institutions, tuition and fees have risen 146% since 1995-96. Moreover, independent institutions have raised tuition and fees 72% since 1995-96. The Need-based Grant, however, has barely increased over the years and has not kept pace with tuition increases.

For the 2006-07 academic year, the State disbursed 37,289 merit-based scholarships. As of Fall 2007, the General Assembly passed Act 115, creating the new Scholarship Enhancement for the Palmetto Fellows and LIFE Scholarships. The Scholarship Enhancements provide up to an additional \$2,500 to scholarship recipients who meet the requisite credit hour requirement and major in a mathematics or science related field. This would allow an eligible LIFE Scholarship recipient to receive up to \$7,500 and a Palmetto Fellows Scholarship recipient up to \$10,000 in funding for college. The SC HOPE award has also increased from \$2,650 to \$2,800. By comparison, there was no additional funding for the Need-based Grant Program. With the increase in funding for merit-based scholarships, it demonstrates that merit-based aid is more equitable than need-based aid. Therefore, the State Scholarship and Grants Advisory Group recommends that more funding be allocated to the SC Need-based Grant Program. These funds should come from both general and lottery funds.

Committee Recommendation: The State Scholarships and Grants Advisory Group recommends the following to the Higher Education Study Committee:

- 1. A change should be made to the current legislation to revise the Need-based Grant methodology of allocating funds. The new methodology would use Pell Grant recipient criteria instead of full-time headcount enrollment by institution.**
- 2. Increase Need-based Grant funding to \$13.3 million dollars. The funds should come from both lottery money and general funds.**
- 3. The Commission on Higher Education develops a marketing plan to address late submission of the Free Application of Federal Student Aid (FAFSA) from Need-based Grant eligible students. In addition, the Commission on Higher Education requests from the General Assembly a line item appropriation of**

\$150,000 to provide direct financial aid services to families around the State in order to ensure early submission of federal and state financial aid applications.

- 4. Increase funding of \$400,000 for the Access & Equity Program as recommended by the Commission on Higher Education.**

3. *Where does the current system leave the citizens of South Carolina in terms of debt?*

Many students who are awarded state/institutional scholarships still have a great deal of unmet financial need after all financial aid has been applied to their cost of attendance. As a result, a number of students are forced to find alternative means to cover their remaining need to attend college. One source that many students in the state utilize to cover their remaining need is student loans.

Student loans have skyrocketed by 165% over the last decade. Consequently, federal student loans now represent almost half of the student aid received by undergraduate and graduate students to finance higher education (see *Staff Report on Undergraduate Student Debt Upon Graduation*, January 2006). In 1992-93, the national average loan for students attending four-year public institutions was \$6,449; in 2002, the national average was \$17,100. During the 2003-04 academic year, 56% of student aid nationally was in the form of loans (Baum & O'Malley, 2003). At South Carolina public institutions, the average student loan debt in 1992-93 was \$6,883; in 2002-03 it was \$16,788. This represents a 144% increase in average student loan debt over the last decade. By comparison, students attending four-year independent institutions borrowed an average of \$5,986 in 1992-93 and \$13,121 in 2002-03, representing a 119% increase over the last decade (Michael Fox, Vice President of SC Student Loan Corporation, personal communication, May 28, 2005). In Fall 2004, 51% of SC Need-based Grant recipients (12,841 of 24,968) obtained student loans in amounts ranging from \$990 to \$9,021 (SCCHE Division of Student Services, 2005). More recently, a study concerning student loan debt conducted by the Institute for College Access & Success found that the average student loan debt for the class of 2006 in South Carolina was \$21,577.

Student loan debt can pose serious obstacles, both before and after a student matriculates into college. The prospect of student debt can prompt students to compromise on college choice, drop out of college, or forego higher education altogether. After graduation, a high debt burden relative to income can keep college graduates from the financial and professional opportunities that their education was supposed to provide. Thus, the State Scholarship and Grants Advisory Group recommends a proposal for both the state and institutions to commit to finding ways to reduce the risks and burdens of loan indebtedness for students in order to promote opportunity, financial security, and improve the state's economic competitiveness nationally and globally.

Committee Recommendation: The State Scholarships and Grants Advisory Group recommends that the Higher Education Study Committee approves a proposal for a state-wide data system to track loan indebtedness of students attending in-state colleges and universities.

4. *Is it in the best interest of the state to increase the number of individuals in South Carolina with a degree?*

Increasing the number of residents in South Carolina who have attained a certificate, associate's or bachelor's degree will not only lead to greater economic development for the State, but it will also improve the quality of life for the citizens of South Carolina. The benefits of a more educated citizenry are well documented (see *Education Pays 2004 Report* by CollegeBoard). Outside of the obvious correlation that exists between education level and income level, individuals with more education tend to have lower incarceration rates, lower smoking rates and higher perceptions of personal health. In addition, areas with higher education levels tend to have lower poverty and unemployment rates (CollegeBoard 2005). The education and business communities of South Carolina have to convince the general public that education is a business proposition for which the return on their investment can improve lives dramatically. In order for South Carolina to compete both nationally and globally from an economic standpoint, the state must increase its pool of potentially qualified employees.

As South Carolina makes the transition from a manufacturing-based economy to a knowledge-based economy, manufacturing layoffs and closures in the state will force more and more workers into the job market without the necessary skills to qualify for available job opportunities. Without the opportunity to obtain the necessary level of education and skills, many of these displaced workers will lack the necessary qualifications to obtain any of the new jobs being created in the state by the influx of knowledge-based industries. South Carolina's unemployment rate averaged 6.5% in 2006, which is well above the national average of 4.6%. In fact, the state's unemployment rate was the third highest in the nation. Among the Southeastern states, only Mississippi ranked higher than South Carolina at a rate of 6.8% (South Carolina Employment Commission, June 2007). These facts provide evidence that the state is in need of more college graduates and skilled workers to place in the workforce.

The Advisory Group has a three part recommendation for increasing the number of individuals in South Carolina with a certificate or degree: 1) supporting the Education and Economic Development Act (EEDA); 2) increasing access to higher education; and 3) establishing a Study Committee to continue researching South Carolina's ever-changing economy.

The Education and Economic Development Act (EEDA), established in May 2005, is designed to provide South Carolina students with the educational tools they need to establish successful lives and make positive contributions to South Carolina's economy in the future. In today's economic climate, postsecondary education and training is key to our students' success. For nearly every student, career preparation continues after high school at two-year or four-year colleges, in the military, in on-the-job training, or in state-approved apprenticeships.

The EEDA will set up seamless transitions to postsecondary education by establishing articulation agreements among the state's high schools, two-year colleges, and four-year colleges. Dual-credit agreements, for example, will let students earn college credit for equivalent courses taken in high school. Such arrangements reduce the cost of college for families and streamline students' pathways to success in the working world (South Carolina Department of Education 2005). The Advisory Group's recommendation for the state to support the EEDA is based on the belief that in order for the workforce of tomorrow to develop the necessary skill set to compete for jobs in South Carolina's new knowledge-based economy, they must be focused and prepared when they arrive on a college campus.

One of the key factors in attracting businesses to any state is the presence of a large pool of potentially qualified employees. In order to be successful at convincing companies to enter the state, South Carolina needs to create a pool of well-prepared graduates at various educational levels. If South Carolina is going to improve from an economic standpoint, the State must increase the number of potentially qualified employees currently available in the workforce. A part of increasing the number of potentially qualified employees in South Carolina is ensuring that the residents of the state have access to higher education. Supporting the State Scholarships and Grants Advisory Group's recommendations for increases to the SC Need-based Grant Program and Lottery Tuition Assistance Program would increase access to higher education in South Carolina, and in turn, would increase the number of potentially qualified employees.

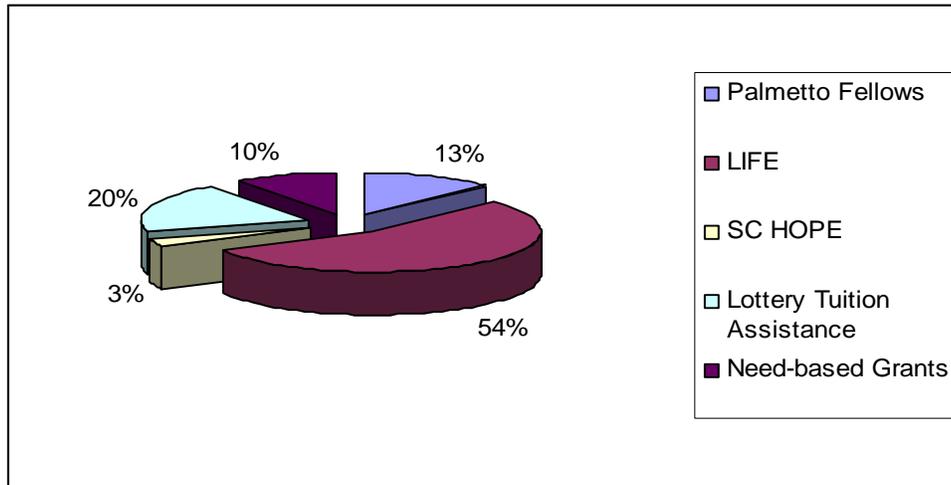
The Advisory Group believes that supporting the EEDA and increasing the number of individuals in South Carolina with a degree are a strong beginning to improving the economic climate of the state. However, improving South Carolina's economy is an on-going task that will require constant responsiveness to changes in the state's economic climate. In order to fully address the issue of improving the State's economy, the State Scholarships and Grants Advisory Group is recommending that a study committee be assembled to assess the state's economic climate. The charge of the study committee will be to devise ways to ensure that South Carolina remains responsive to changes in the economy. This new study committee would also be charged with establishing a formal case for improving the economy of the state.

Committee Recommendation: The State Scholarships and Grants Advisory Group recommends that the Higher Education Study Committee approve a proposal for increasing the number of residents in South Carolina with a certificate or degree. This proposal should have three major parts: 1) support the Education and Economic Development Act (EEDA); 2) increase access to higher education; and 3) establish a Study Committee to ensure that the state remains responsive to changes in its economy.

5. Is there a disparity between need-based funding and merit-based funding?

In recent years, state funding for merit-based programs has grown to keep pace with the increased numbers of eligible students, but funding for need-based grants has not. As a result, a significant imbalance exists between merit-based and need-based aid in the State. In 2006-07, the state's merit-based programs (Palmetto Fellows, LIFE and SC HOPE Scholarships) represented 70% of approximately \$245 million in state student-aid that was awarded, whereas state need-based aid programs (SC Need-based and Tuition Grants) represented 20% and Lottery Tuition Assistance at two-year colleges represented 10%. South Carolina is far below the national average in need-based aid according to the most recent survey (AY 2005-06) by the National Association of State Student Aid Programs. The recent Need-based Grant survey of financial aid administrators demonstrate that, despite overall increased student aid, a sizable affordability gap remains for the state's neediest students.

Figure 1: 2006-07 State Appropriations for Scholarships and Grants



Since 1998, the number of students receiving state merit-based scholarship aid (i.e., Palmetto Fellows, LIFE, and SC HOPE) has increased by 110%, and funding for merit-based programs has increased by 349%. However, during the same time period, the number of students receiving the SC Need-based Grant has increased by only 19% and funding has increased by only 34%.

While federal and state governments, as well as individual colleges and universities, have expanded their investment in financial assistance to college students, a declining percentage of that spending is devoted to need-based financial aid. Programs targeted at middle- and upper-income families, such as student loans, federal tax deductions, tax credits, state merit programs, and institutional merit programs have been growing much faster than need-based programs.

Additionally, while State appropriations for the merit-based programs have grown significantly over the last five years, funding for the SC Need-based Grant has not kept pace with tuition increases (see Appendix A of the *Summary Report on South Carolina Scholarships and Grants, 1998-2005* for Average In-state Tuition and Fees by Institution Since 1995-96). Table 2 illustrates the inequity in appropriations of the State's merit-based scholarships as comparison to the Need-based Grant Program.

Table 2: Scholarships and Grants State Appropriations Since 1996

Academic Year	Palmetto Fellows	SC Need-based Grant	LIFE	SC HOPE	Lottery Tuition Assistance	Tuition Grant
1996-97	\$2,832,233	\$14,305,482				\$17,876,872
1997-98	\$5,686,573	\$12,640,690				\$18,776,872
1998-99	\$7,836,686	\$19,791,768	\$29,779,860			\$19,276,872
1999-00	\$12,291,300	\$12,000,000	\$26,500,000			\$20,576,872
2000-01	\$12,291,300	\$12,500,000	\$26,500,000			\$21,216,872
2001-02	\$12,291,300	\$12,500,000	\$46,956,478			\$21,214,550
2002-03	\$17,259,618	\$12,478,497	\$94,610,414	\$5,787,600	\$34,000,000	\$19,369,269
2003-04	\$19,567,906	\$15,478,498	\$111,520,063	\$6,500,000	\$29,000,000	\$22,325,740
2004-05	\$23,176,712	\$22,438,427	\$122,374,744	\$6,183,017	\$39,750,000	\$23,322,247
2005-06	\$26,381,991	\$23,246,093	\$134,929,425	\$6,673,826	\$43,000,000	\$23,322,247
2006-07	\$29,830,758	\$23,246,093	\$141,333,829	\$7,144,909	\$45,000,000	\$27,088,851

Committee Recommendation: The State Scholarships and Grants Advisory Group recommends that the Higher Education Study Committee adhere to the recommendations in Question #2.

6. Are changes needed to the GPA requirements for continued eligibility for merit-based scholarship programs?

In recent years the demand for student aid for post high school education in South Carolina has exceeded the supply of dollars available. Consequently, the competition for financial aid has become an interesting venture. Merit-based and need-based programs have become an important tool to access college in South Carolina. In 2006-07, South Carolina dispersed over \$175 million dollars in merit-based scholarships and just over \$23 million dollars in need-based grants. With such a glaring disparity the question has been asked, if the GPA criteria for continued eligibility for merit-based scholarships are increased, would funds be available to allocate to the South Carolina Need-based Grant Program?

The most prestigious merit-based program in South Carolina is the Palmetto Fellows Scholarship. The primary purpose of the Palmetto Fellows Scholarship is to recognize the most academically talented high school seniors in South Carolina. By establishing high academic requirements to apply for the Palmetto Fellows Scholarship, the State is ensuring that the primary purpose of recognizing the most academically talented high school seniors is being met. The secondary purpose of the Palmetto Fellows Scholarship Program is to encourage the most academically talented students to attend college in South Carolina. In addition, measures must be taken to ensure equitable minority participation in this program. During the 2006-07 academic year \$29.8 million were allocated to Palmetto Fellows Scholarship program. Students receive up to \$6,700 toward the cost of attendance during the freshman of enrollment and sophomore, junior, and senior Palmetto Fellow Scholars receive up to \$7,500 towards the cost of attendance. In order to qualify for the Palmetto Fellows Scholarship a high school senior must score at least 1200 on the SAT or 27 on the ACT, earn a 3.5 minimum cumulative grade point average (GPA) based on the SC Uniform Grading Policy, and rank in the top six percent of his or her class. Students are also allowed to meet alternative criteria by scoring at least 1400 on the SAT or 32 on the ACT and earn a 4.0 minimum cumulative GPA based on the SC Uniform Grading Policy. To maintain continued eligibility, students are required to maintain a 3.0 institutional GPA and earn at least 30 credit hours each academic year.

The next merit-based program, the LIFE Scholarship, which is the largest in the state, dispersed more than \$134.3 million to 29,838 students during the 2006-07 academic year. This program was created to increase student access to higher education, improve the employability of South Carolina students, provide incentives for students to be better prepared for college and encourage students to graduate from college on time. Students receive up to \$5,000 per academic year at both four-year and two-year eligible public or independent institutions in the state, and may receive up to an additional \$2,500 from the LIFE Scholarship Enhancement toward the cost of attendance at four-year public and independent institutions. To be eligible to receive the LIFE Scholarship, a student attending a four-year institution must meet two of the following three criteria: 1) earn a 3.0 minimum cumulative GPA based on the SC Uniform Grading Policy upon high school graduation; 2) score at least 1100 on the SAT or 24 on the ACT; and 3) rank in the top thirty percent of his or her graduating class. A student attending a two-year institution must earn a 3.0 minimum cumulative GPA based on the SC Uniform Grading Policy upon high school graduation. In order to maintain the LIFE Scholarship, students are required to maintain a 3.0 LIFE GPA and earn a minimum average of 30 credit hours each academic year.

The final merit-based program offered in South Carolina is the SC HOPE Scholarship. The primary objective of the SC HOPE Scholarship is to provide funding to students who graduate from high school with a minimum 3.0 cumulative GPA based on the SC Uniform Grading Policy but who are not eligible to receive either the LIFE or Palmetto Fellows

Scholarship. Students who are awarded the SC HOPE Scholarship receive up to \$2,800 during the first year of enrollment at a four-year institution towards the cost of attendance. Students who maintain a 3.0 GPA and earn a minimum average of 30 credit hours qualify for the LIFE Scholarship the following year. Financial aid officials from around the State have noted that the SC HOPE Scholarship is providing college access to students who otherwise may not have enrolled in college at all or who may not have enrolled in a four-year college.

While State appropriations for the merit-based programs have grown significantly over the last five years, funding for the SC Need-based Grant Program has not kept pace. However, by modifying the continued eligibility requirements for the Palmetto Fellows, LIFE and SC HOPE Scholarships, funds would be made available to allocate to the SC Need-based Grant Program. Although, the increase in GPA is slightly more rigorous it does not present a barrier that most students would not be able to obtain. The current system is inequitable because Palmetto Fellows, LIFE, and SC HOPE Scholarship recipients generally must meet the same continued eligibility requirements. The saving generated from this adjustment maybe applied to the SC Need-based Grant Program.

Committee Recommendation: The State Scholarships and Grants Advisory Committee recommends that the Higher Education Study Committee approves a proposal to increase the minimum GPA requirements for continued eligibility for the Palmetto Fellows Scholarship (3.0 to 3.25), the LIFE Scholarship (3.0 to 3.12), and SC HOPE Scholarship will remain at 3.0. This proposal would require a four year transition period beginning with the 2012-13 freshman class. Students who are currently receiving one of the merit-based scholarships will continue to meet the current requirements for continued eligibility. With these increases, the savings generated would allow for additional funding to be allocated to the SC Need-based Grant Program.

7. Is the current method for need-based funds allocation best serving the neediest student?

Further complicating the issue of limited-funding for need-based student aid is that the state-mandated methodology for distributing the available funds to public colleges and universities is not based on the distribution of the state's neediest students.

The current legislated formula for allocating Need-based Grant funding across public colleges and universities is based on the distribution of undergraduate, degree-seeking, SC resident student headcount from the previous year. Once the allocation is distributed to the institution, the Financial aid officers determine which students may receive a Need-based Grant award. The student must demonstrate to the institution a financial inability to pay for college. In order to do so, the student must complete a Free Application of Federal Student Aid (FAFSA). The calculation from the FAFSA determines the student's estimated family contribution (EFC). A student who is awarded a federal Pell Grant has a low or zero EFC, which provides a uniform method of determining need.

There is a larger population of Pell Grant recipients who attend institutions with a smaller undergraduate full-time headcount enrollment. With this said, this population of Pell Grant recipients and needy students never receive need-based funding or receive a substantially less award than their counterparts attending an institution with a large full-time headcount enrollment population. In addition, there has been an agreement among college and university presidents around the State to address the issue of increasing need-based aid throughout the state and to address the issue of changing the allocation to ensure equitable distribution of aid to needy students.

Rationale for Adjusting the Need-based Grant Methodology:

The objective is to alter the Need-based Grant allocation to institutions to ensure access for low-income, college qualified students. The Commission on Higher Education's proposed methodology should direct need-based funding to needy students, regardless of the institution they choose to attend. To accomplish this objective, the funding formula proposed is designed to distribute equitably need-based funding by equalizing the state's contribution toward the unmet need of these students. For the purposes of this methodology, needy students will be defined as Pell Grant recipients.

Committee Recommendation: As the current Need-based Grant methodology is not serving the neediest students, the State Scholarship and Grant Advisory Group recommends the Higher Education Study Committee approves a proposal for the legislature to amend making a legislative change to Section 59-142-40 of the SC Code of Laws. The proposed methodology will include a formula for the distribution of Need-based Grants to be revised from one based on undergraduate enrollment to one based on SC resident Pell Grant recipients at each public college or university. The level of state program support should be consistent at each public college and university and should be calculated as a percent of tuition and fees to be supported. The proposed distribution holds the percentage of state need-based support constant by 14% (rounded) and/or be used as a gage to determine additional increases through the Higher Education Price Index (HEPI).

8. Review the need for a book allowance for Lottery Tuition Assistance Program (LTAP) recipients.

Upon review of the Lottery Tuition Assistance Program (LTAP), the State Scholarships and Grants Advisory Group proposes a two part recommendation for improving the Program: 1) increase the amount of funding for LTAP; and 2) amend the current statute to allow any Lottery Tuition Assistance funding, not used towards the cost-of-tuition, to be used for book allowance. The book allowance should not exceed \$300 for any student, and would be included in the total award amount of LTAP funding a student may receive for the term in question. The book allowance would be disbursed to those students who did not receive the full Lottery Tuition Assistance award, due to the fact that their cost-of-tuition would be met through other sources.

LTAP funds are made available to degree-seeking students who are enrolled at eligible two-year institutions and who are taking at least six credit hours. The program is funded with lottery funds with awards limited to the extent funding is appropriated. In FY 2007-08, there was \$47 million in appropriated lottery funds. The award level per full-time student has been set at \$864, for Fall 2007, a reduced amount from Spring 2007, due to program growth. As has been the case since the inception of the program in FY 2002-03, the award level must be revisited each semester. The number of students provided awards has increased by 37% since FY 2002-03. Increased funds are needed to ensure the current grant level may be maintained and increased to the targeted goal of \$996 stipulated in the lottery appropriation proviso.

Table 3 below shows the LTAP funding amounts since Fall 2002. As tuition increases, the impact that the Lottery Tuition Assistance award can have for a student lessens. It is important that the amount of the award keep pace with increases of tuition, in order to allow for the greatest impact for its recipients.

Table 3: LTAP Award Amounts Since Fall 2002

Term	Full-time Amount	Amount Per Credit Hour
Fall 2002	\$792	\$66
Spring 2003	\$1,044	\$87
Summer 2003	\$876	\$73
Fall 2003	\$876	\$73
Spring 2004	\$876	\$73
Summer 2004	\$876	\$73
Fall 2004	\$924	\$77
Spring 2005	\$924	\$77
Summer 2005	\$744	\$62
Fall 2005	\$936	\$78
Spring 2006	\$936	\$78
Summer 2006	\$936	\$78
Fall 2006	\$996	\$83
Spring 2007	\$996	\$83
Summer 2007	\$948	\$79
Fall 2007	\$864	\$72

To increase the funding to LTAP, the Scholarships and Grants Advisory Group supports the recent budget request of the **SC Board of Technical & Comprehensive Education** of a funding increase to the Program. In order to maintain high access at the state's two-year institutions, the Advisory Group recommends an increase in the state appropriation to LTAP to ensure sufficient funds to stabilize the available per student award. Increasing LTAP would increase the per student award amount for the Program and would also allow for the inclusion of a book allowance for eligible students.

One common theme mentioned in each of the Advisory Group's meetings was the need for flexibility in the way students could use LTAP funding. According to Title IV Regulation, Pell Grant funds may be awarded towards the cost of attendance. However, it is common practice among institutional staff to apply Pell Grant funds first towards tuition and fees. The issue with the current makeup of the system is that a student who has his/her tuition paid by their Pell Grant, will not be able to use Lottery Tuition Assistance funds for other expenses, such as books and other miscellaneous costs.

The Advisory Group recommends that language be added to the Lottery Act section 59-150-360 of the SC Code of Laws to allow for a book allowance for LTAP recipients. Adding language that creates a book allowance would make the Program consistent with the current structure of the LIFE and SC HOPE Scholarships. Current statute allows a student receiving a LIFE or SC HOPE award, who is able to meet the cost of attendance at their university without using all of their Scholarship award, to use the remaining funds towards their book expenses. Enabling LTAP recipients to do the same would allow a student to apply their award to another area of need, if their cost of tuition is met. The Scholarships and Grants Advisory Group recommends that a portion of the LTAP award disbursement for the term in question, not to

exceed \$300, be added to the LTAP award in the form of a book allowance. Allowing a portion of funds to be used towards book expenditures would benefit a large population of the State's Lottery Tuition Assistance recipients who have remaining need.

Committee Recommendation: The State Scholarships and Grants Advisory Group recommends that the Higher Education Study Committee approve a proposal for improving LTAP. This proposal should have two parts: 1) Increase the total amount of funding for the LTAP; and 2) insert language into the existing section of the Lottery Act 59-150-360 of the SC Code of Laws to allow any remaining funding up to the maximum award for LTAP to be used towards a book allowance (not to exceed \$300).

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