



South Carolina Commission on Higher Education

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October 8, 2012

The Honorable Nikki R. Haley
 Governor, State of South Carolina

Ms. Julie J. Carullo
 Acting Executive Director

Re: CHE (H03) FY 2013-14 Budget Request

Dear Governor Haley:

We believe today more than ever that South Carolina's path to more prosperity runs through an effective and efficient higher education system. To the extent that our citizens are better educated, business in our State will produce more and better jobs, and they will innovate for future growth. Investing in Knowledge now is crucial to our State's success. Consequently and as requested, the S.C. Commission on Higher Education's (CHE) enclosed budget requests and budget priorities for higher education are submitted.

Higher Education

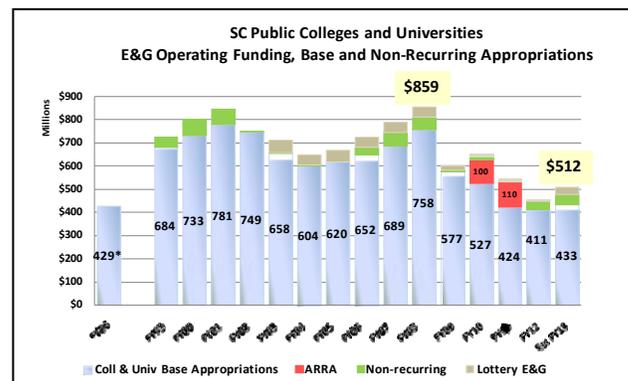
Our state is undereducated and to advance we must compete through knowledge and dramatically increase the state's educational attainment levels. Ensuring that high quality, affordable higher education opportunities remain available to South Carolinians is paramount to that success. The payoff in doing so extends beyond the individual benefit. We know that a more educated populace has lower unemployment, less poverty, better health, higher labor force participation, and less incarceration.

A study on realizing the goals highlighted in the recent statewide *Action Plan for Higher Education* revealed a striking pay-off for South Carolina's economy. ¹ During the period of movement toward the goal of increased education levels (from 2010-2030), there would be an average annual benefit of \$11 for every \$1 invested. After reaching the goal in 2030, the annual gain for the state would be \$6.9 billion in total personal income; \$7.8 billion in gross state product; and 44,514 additional permanent jobs – each \$1 invested boosts South Carolina's annual gross state product by \$25.

Our requests for higher education continue to focus on ensuring high quality, affordable and accessible higher education programs and opportunities for our citizens.

Educational Appropriations

Our first budget priority for higher education FY14, remains focused on renewed investment in our public colleges and universities. The reductions to their base funding have been deep and remain among the largest in the nation. As illustrated at right, appropriations for higher education have declined significantly since FY08 and are at levels of nearly 20 years ago. Core recurring operating funding (actual dollars) for our 33 public institutions decreased 46% - over \$347M in state funds lost - from FY08 to FY12. At the same time state funding has decreased, enrollment

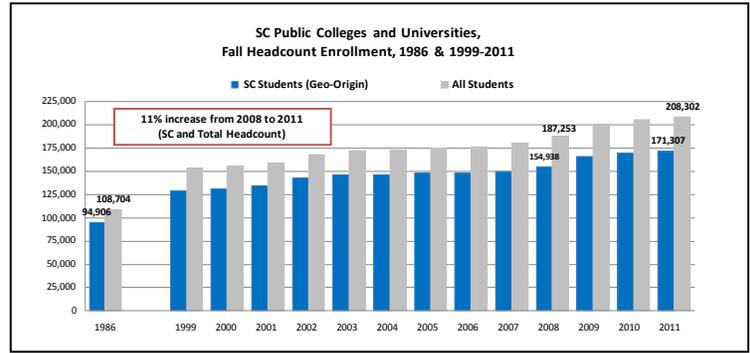


¹ *Leveraging Higher Education for a Stronger South Carolina: Action Plan Implementation*, March 2009. For a copy, see <http://www.che.sc.gov/AboutCHE/OurResponsibilities/HigherEducationActionPlan.aspx> *Economic Return on Investment in South Carolina's Higher Education*, Division of Research, USC Darla Moore School of Business, August 2009. For a copy, see http://www.che.sc.gov/CHE_Docs/InfoCtr/HESC_Files/EconReturnHigherEdAugust09.pdf

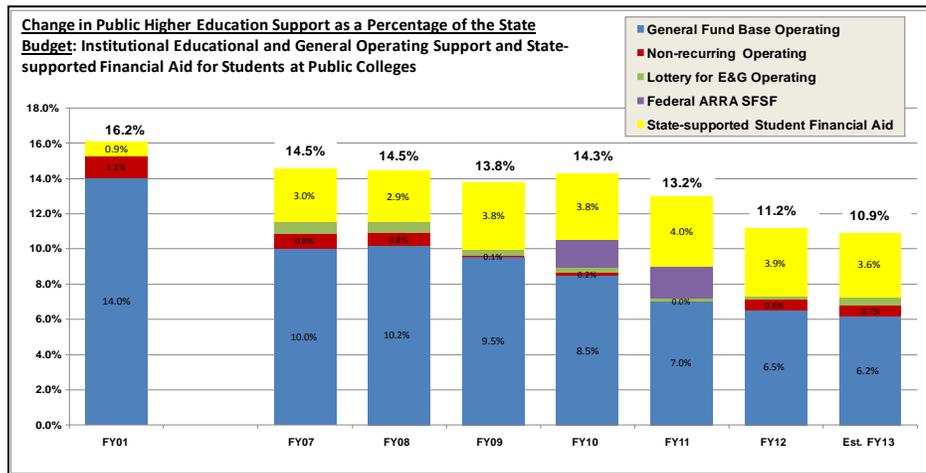
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has continued to increase resulting in less investment per South Carolina student. Federal stimulus funds, which were provided in FY10 and FY11, mitigated the state reductions during those years but did not fully restore the cuts and are no longer available. In FY13, core recurring funding rose slightly as the state provided funds for pay/health plan increases and nonrecurring funds, primarily for maintenance needs, were again provided at similar levels to FY12.



In considering higher education as a state priority, we've seen a steady decline in higher education funding as a percentage of the state's budget. Shown below, higher education support for public colleges and universities and for the South Carolina students who attend has fallen to 10.9%. As with the colleges and universities, CHE and the higher education programs flowing through CHE's budget have experienced similar levels of decline in recent years.

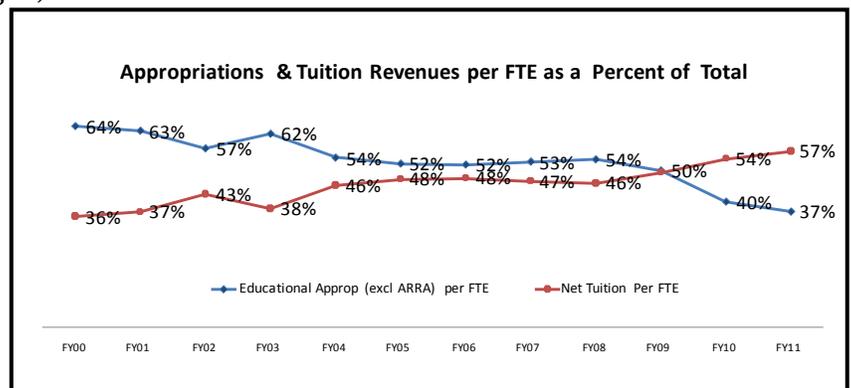


Despite the rapid declines in funding over the past several years and only limited recovery this year, our public colleges and universities have kept tuition increases at modest levels. This year the average increase for in-state undergraduate students at public institutions was less than 3%.

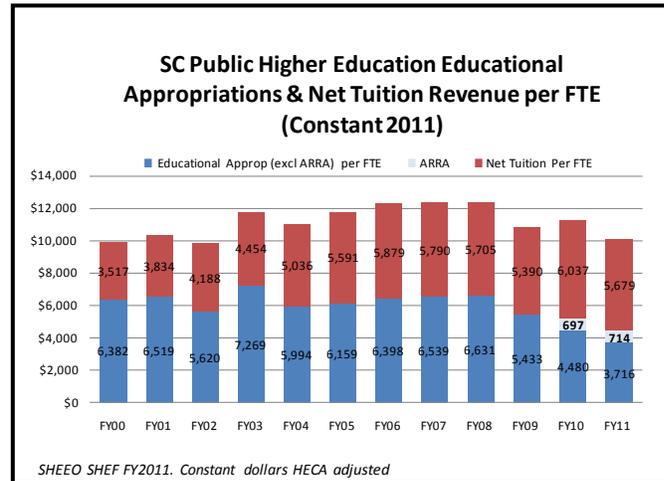
The graphs, below at right and on the next page, show trend data over the past decade as reported for the most recent national SHEEO State Higher Education Finance Survey (2011) for state educational appropriations including state-support for scholarships and grants for students (blue) and student tuition and fee revenues (red). The data take into account inflation and enrollment mix. As state funding for our public colleges and universities has declined, a larger burden of the costs has fallen to students and their families.

South Carolina's students are now contributing more to the cost than the state even taking into account state-supported financial aid. (Graphic at right.)

While the decreases in state support have shifted a larger burden of costs to students over the past decade, jeopardizing affordability and access, the recent increases in tuition and fees have not made up for the reductions in state funding. Together, educational appropriations (state share including state-supported scholarships and grants) and tuition and fee revenues (student share) as of FY11 remain below levels of FY08 and are similar to levels of a decade ago. (Graph top of next page.)



We understand the continued pressures on the state's budget and that the economic recovery is limited. **However, in consequence of higher education's central role in sustaining and enhancing that recovery, we recommend that the state begin working over the next several years toward restoring core state support for our colleges and universities. Progressively increasing support as our economy recovers would lessen the tuition and fee burden on students and families and support institutions as they enroll increasing numbers of students and continue improving quality and student outcomes.**²



Support of Capital and Facilities Maintenance and Renovation Needs

In addition to operating support, a state bond issue for higher education remains a key priority. Capital investment is a normal operating cost – not an exceptional or unusual one. Modern and safe facilities are essential to a quality experience for our students. Our colleges and universities succeed when students choose to attend, and their choice is significantly influenced by the state of the campus. Unfortunately, there has not been consistent investment by the State in our college and university academic (educational and general) facilities. The State has not had a general obligation bond issue since 2000 and has only made a very limited investment of non-recurring funds for higher education capital needs in recent years. With the lack of a consistent funding source from the State for facilities renovation and replacement needs, additional pressure is placed on resources and the need for increased tuition and fees. State investment as soon as possible in urgently needed capital for higher education offers the prospect of getting interest rates at an historical low while paying the bonds off in a rising economy – a good deal.

The latest institutional survey building data reflect significant maintenance and infrastructure repair and renovation needs across our public colleges and universities. The State's investment of one-time Capital Reserve Funds during the past two years has been greatly appreciated – in FY12, \$39M and, in FY13, \$32.5M for deferred maintenance and another approximately \$30M for other facilities needs. **Recognizing that a bond bill is not likely in FY14, we encourage continued investment of one-time funds at least at levels of FY13.**

Regulatory Reform

CHE and our college and universities believe that the state can continue to improve the efficiency of its system through continued action on regulatory reform. Progress has been made recently with the passage of regulatory reforms for higher education in 2011. Whether considered within the context of a revised accountability-based funding system or otherwise, continued improvement of the accountability and the efficiency of our colleges and universities through a better balanced and refreshed set of regulations remains a key priority.

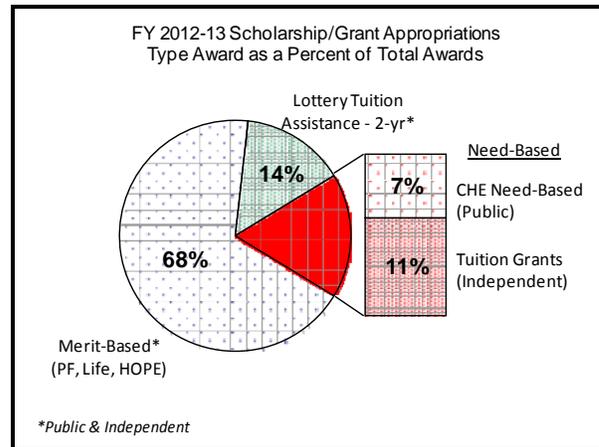
Student Success and Strengthening Statewide Collaborations and Innovations

Beyond restoration of core funding, our budget priorities continue to focus on those initiatives that assist students in successfully achieving a degree and leading edge programs that strengthen statewide collaborations and innovation. Among these, priorities for FY14 continue to include increased support for need-based student financial aid, continued support of Lottery Tuition Assistance (LTA) at the increased levels of FY13, and continued full funding of the state's merit-based financial aid programs and the SREB student programs. The Partnership Among South Carolina Academic Libraries (PASCAL) and SmartState™ also remain important investments.

² CHE is not advancing at this time a recommended allocation methodology given the continued conversations of a revised accountability-based funding mechanism for higher education, but remains supportive of working with the Governor, General Assembly and institutions in considering a revised higher education funding model. Last year at the request of the Governor, CHE and the universities advanced recommendations that supported a mission-specific focus and a phased-in approach that would be applied to new funds and not be re-allocative of institutional base funding. It was recommended that a phased in approach to accountability-based funding that would include initially funds for restoration of lost base funds, parity (differences in funding per in-state FTE's as evidenced by a comparison of state funding and the Mission Resource Requirement formula) and accountability measures.

Need-based student financial aid is a critical element for any state that seeks to enhance the participation in and completion of degree programs by students who have limited financial means.

In recent years, funding for merit-based scholarships has grown to keep pace with increased numbers of eligible students, but funding for need-based grants has not. While the support of student merit-based programs is important and provides incentives for our students to enroll and succeed in South Carolina colleges, this creates the appearance that the appeal of merit aid has diminished the importance attached to need-based programs. As a result, a significant imbalance exists and continues to grow between merit-based and need-based student financial aid. As of FY13, the state's merit-based programs (Palmetto Fellows, LIFE and HOPE) represent 68% of approximately \$330M in dollars appropriated, whereas state need-based grant programs (CHE Need-based and Tuition Grants) represent 18%, and LTA at two-year institutions represents 14%. Ensuring sufficient support for need-based grants, particularly for the grant program for students at public colleges and universities, remains a top priority.



The Need-based grant program receives the corpus of its funding from General Funds and Lottery funds. In recent years, increases have been made available through fiscal year-end allocations of one-time residual Lottery unclaimed prize funds and through a supplemental one-time appropriation provided a year ago. In FY13, Need-based grants were increased \$4M (\$1.5M increase for Tuition Grants) with surplus Lottery funds. A predictable and stable funding stream is crucial to ensuring that students whose access to higher education is assured through need-based aid can rely on this support. **Accordingly, in addition to continued full support for the merit-based programs, we propose that need-based aid be supported in FY14 at least at the current higher FY13 funding levels.**

Also of importance are the funds provided for tuition assistance, LTA, at the state's two-year colleges. **In FY13, LTA was increased and in concert with the technical colleges support funding for LTA at least at the current increased level.** LTA improves access for students not qualified for merit programs who may be entering higher education for the first-time and is also important for those who are returning to acquire training to enter or remain in the workforce.

Southern Regional Education Board (SREB) contract programs offer students pursuing health/professional degrees admission to schools in other states for the price of in-state tuition and fees. South Carolina participates by contracting through SREB for seats for 24 students in Optometry and 104 students in Veterinary Medicine at 5 partner institutions. **To continue participation at the current levels, base recurring dollars plus \$79,710 is requested for FY14.**

Support the Leading Edge of Efficiency and Productivity

PASCAL (Partnership Among South Carolina Academic Libraries), www.pascal.org, is a government best practice, providing cooperative sharing of physical and electronic resources among all of the state's public and private academic institutions at greatly reduced rates. In FY05, the state began investing \$2M annually, but with the economic downturn, funding was reduced to just under \$200,000 as of FY08. Increased institutional investment and a reduction in available electronic collections have enabled PASCAL to continue. In FY12, PASCAL was given first priority for \$1.5M in excess unclaimed prize funds above the first \$12.4M and received \$1.25M at year-end. Again in FY13, PASCAL has been included in the first priority position for excess unclaimed prize funds at \$1.5M. Whether this funding will be realized is uncertain. **Funding of \$1.5M from a more stable source is needed to ensure PASCAL's continued success.**

Through **SmartState (www.smartstatesc.org)**, our research universities are advancing SC's economy by successfully recruiting a critical mass of top-notch researchers in science and engineering. In turn, our economy is benefiting through research and discovery, technology transfer and commercialization. To date, the SmartState Review Board has awarded \$191.6M in state funds which are matched, \$1-for-\$1 with non-state funds, for the creation of 48 Centers of Economic Excellence and 86 specialized endowed

professorships. SmartState has resulted in direct investment approaching \$1B non-state dollars in SC's economy and the creation of approximately 7,000 jobs. Lottery funding of \$30M annually for SmartState, which began in FY03, was eliminated in FY09 and has not been restored. The SmartState Program has survived on interest revenue accrued over the life of the program. This funding is depleting as additional centers come on line and projections are that without additional state support, the fund will be near zero by the end of FY13. **Restoration of annual funding for SmartState will continue this important investment that is succeeding in growing South Carolina's economy and future success.**

CHE Agency Requests

As outlined in the attached requests, CHE's priority agency request is \$200,000 for 2 FTE positions. The inability to fund vacated positions has led to staffing shortages and increases in staff workload across the agency that are not sustainable. The requested funds include support for professional staff needs for carrying out mission critical functions related to ensuring quality academic programs and providing direction at the state level in addressing academic quality statewide. Other requests of the agency relate to administrative changes in authorization requests of other funds including one request to increase the authorization level by \$85,000 for the licensing program which is supported by fee revenue. The increased authority would enable the agency to use existing licensing revenues to provide for staffing and operating support at needed levels. Beyond the requests already mentioned for higher education and student scholarships and grants, we are also requesting an increase of \$36,000 for the EIA-funded Centers of Excellence program. The Centers of Excellence program is a longstanding competitive grants program focused on teacher professional development and support in critical areas of need as identified by our K-12 education partners. The requested funds will enable competition for one additional Center in FY14. CHE is not requesting any new or significantly changed provisos.

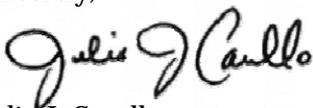
In Summary

Restoring higher education as a priority is critical if South Carolina is to thrive in the increasingly competitive knowledge economy. Additional funds are necessary to improve and strengthen the quality and effectiveness of education, training, and research; to make needed programs more widely available; and to mitigate tuition increases, all of which would serve to increase capacity in a state that is severely undereducated. Investing in higher education produces economic benefits that bring in additional revenue for the state over time. We cannot afford to fall further and further behind as our neighbors continue to maintain and in many cases increase support for higher education.

The world is rapidly moving to an economy based on knowledge; given this direction, disinvesting in higher education is the reverse of what South Carolina should be doing.

We look forward to our continued work together with you in ensuring the success of South Carolina's higher education system for the betterment of the State and the well-being of South Carolinians.

Sincerely,



Julie J. Carullo
Acting Executive Director

ENCL

- C: Chairman John L. Finan and Members of the SC Commission on Higher Education
- The Honorable Hugh Leatherman, Chairman, Senate Finance Committee
- The Honorable Brian White, Chairman, House Ways and Means Committee
- Mr. Les Boles, Director, Office of State Budget
- Presidents, SC Public Colleges and Universities
- Dr. Darrel Staat, Executive Director, State Board for Technical & Comprehensive Education
- Mr. Gary Glenn, CHE, Director of Finance, Facilities, and MIS

Transmitted to: Karen Rhinehart, Office of State Budget, 1205 Pendleton Street, Suite 529, Columbia, SC 29201