



South Carolina Commission on Higher Education

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November 3, 2011

Dr. Garrison Walters, Executive Director

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

Re: CHE (H03) FY 2012-13 Budget Request

Dear Governor Haley:

You've asked us to reflect upon how we can best and most responsibly serve South Carolina in the coming year. The Commission on Higher Education (CHE) continues to submit its budget requests (enclosed) with this in mind and in consideration of key investments needed to propel the state forward. Given that full details on the operation of Accountability Based Funding (ABF) have not yet developed, this letter is framed in the context of the traditional higher education budget. Even in a changed structure, however, the priorities mentioned here would still be expected to apply.

Higher education is critical to our state's future prosperity and success. 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 over the 20 years 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.

Last year, CHE submitted requests in recognition of the ongoing decline in state funding and did not request operating increases. While the state's situation is improving, our requests continue to reflect the circumstances by focusing on ensuring high quality, affordable and accessible higher education programs and opportunities for the state's citizens. While we recognize the continued fiscal constraints South Carolina faces, we remain deeply worried about the diminishing level of state support for higher education. Renewed investment in our higher education institutions in the upcoming year is imperative. Since FY 2007-08, the cuts experienced by our public colleges and universities have been deep and remain among the

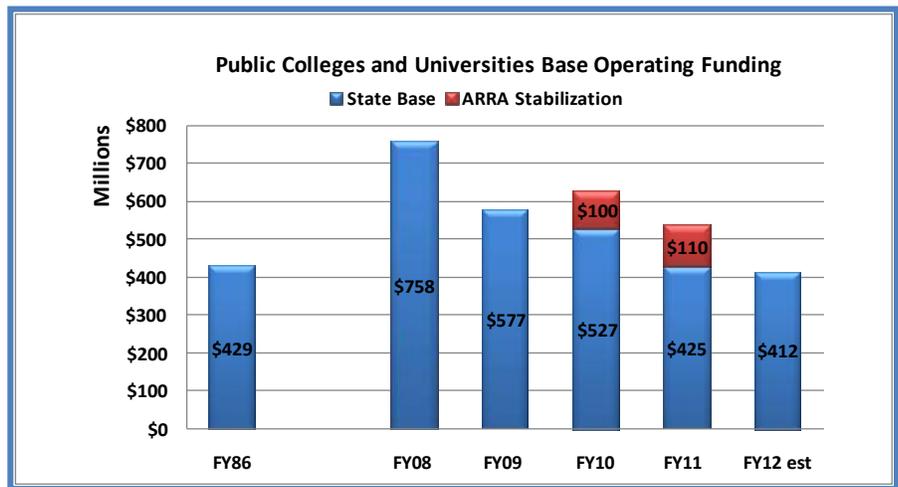
¹ ***Leveraging Higher Education for a Stronger South Carolina: Action Plan Implementation***, March 2009. For a copy, see

<http://www.che.sc.gov/AboutCHE/OurResponsibilities/HigherEducationActionPlan.aspx>

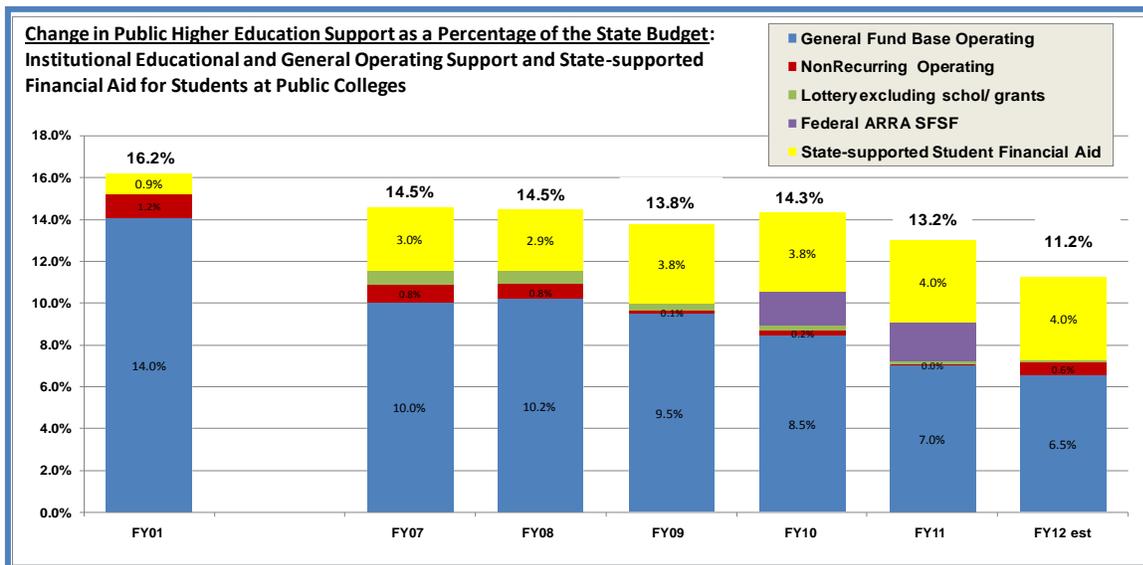
Economic Return on Investment in South Carolina's Higher Education, Division of Research,
USC Darla Moore School of Business, August 2009. For a copy, see
http://www.che.sc.gov/CHE_Docs/InfoCtr/HESC_Files/EconReturnHigherEdAugust09.pdf

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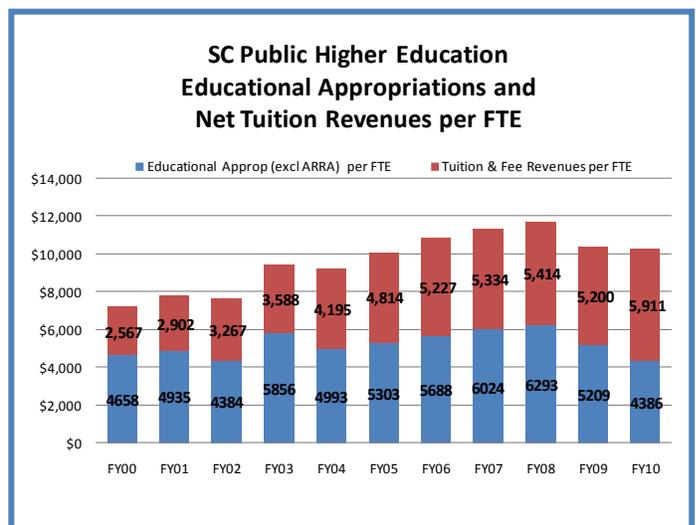
largest in the nation. In just three short years, core recurring operating funding (actual dollars) for our 33 public institutions decreased 46% with over \$346 million in state funds lost. Federal stimulus funds, which mitigated the state reductions during the past two years but did not fully restore the cuts, are no longer available as of FY 2011-12.



Most important, we've seen a steady decline in higher education funding as a share of the state's budget. As illustrated in the graphic below, higher education support for public institutions and South Carolina students attending our institutions has fallen to 11.2%. As with the institutions, CHE and the higher education programs flowing through CHE's budget have experienced similar levels of decline in recent years.



Despite the continued loss of funds again this year, our public colleges and universities kept tuition increases to a minimum with the average increase for in-state students less than 4%. While the decreases in state support have shifted a larger burden to students over the past decade, jeopardizing affordability and access, recent increases in tuition and fees have not made up for the reductions in state funding. The graphic at right illustrates that the total of tuition revenues (net of state supported student financial aid) and educational appropriations (including state-supported financial aid) in actual dollars remain below levels of FY 2007-08 and is only slightly higher than FY 1999-2000. ²



² State Higher Education Executive Officers (SHEEO), State Higher Education Finance, FY2010

In continued recognition that the state's budget situation is improving only modestly, our first budget priority for FY 2012-13, as well as that of our 33 public colleges and universities, remains that the state restore funding cuts from institutional and CHE budgets over the past several years.

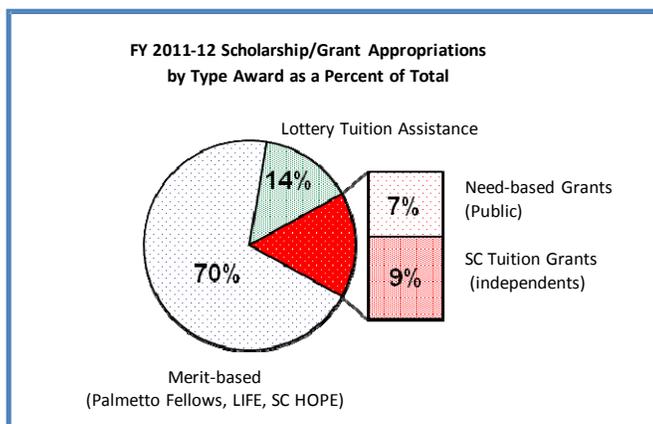
In addition to operating support, a central component of our request for addressing the needs of the state's public colleges and universities is bond funding for facilities renovation and replacement. Higher education has received almost nothing for its capital needs since 2000, which puts increased pressure on resources and the need for increased tuition and fees. Capital is a normal operating cost—not an exceptional or unusual one. A state bond issue for higher education also remains a key priority for FY 2012-13. Investing 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.

Higher Education greatly appreciates the regulatory reforms granted during 2011 with the passage of the Higher Education Administrative Procedures and Efficiencies Act. These reforms were a positive step forward; however, continued progress in reforming regulatory provisions for higher education remains an area of focus. CHE and our public colleges and universities will continue to work together and with the state's leadership to identify and implement additional opportunities that continue the gains in improved operational efficiency and flexibility while also ensuring increased accountability to the state and its citizens.

Beyond restoration of core funding, our budget priorities continue to focus on those initiatives that strengthen statewide collaborations and assist students in successfully achieving a degree. Among these, key priorities for FY 2012-13 continue to include (described below) need-based student financial aid, and the SmartState™ Program (formerly Centers of Economic Excellence), and the Partnership Among South Carolina Academic Libraries (PASCAL). CHE also supports continued full funding of the state's financial aid programs and projected increases needed to maintain the current level of support for Lottery Tuition Assistance (LTA) for students at two-year colleges.

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-program 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 aid. As of FY 2011-12, the state's merit programs (Palmetto Fellows, LIFE and HOPE) represent 70% of approximately \$330 million in dollars appropriated, whereas state need-based aid programs (CHE Need-based and Tuition Grants) represent 16%, and LTA at two-year institutions represents

14%. Ensuring sufficient support for the state's need-based grant programs remains a top priority. Changes under consideration at the federal level for the Pell grant program may further reduce funding availability for those who most need this support, making our state's need-based grant program funding all the more critical.



Accordingly, we propose that, in addition to continued support for the merit-based programs, need-based aid be supported in FY 2012-13 at least at the current FY 2011-12 funding level and increased to the extent possible.

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. 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. We are certain that need-based aid will remain at the top of CHE and the institutions' list of priorities for the foreseeable future.

SmartState™ (formerly CoEE) program funding of \$30 million annually since

FY 2002-03 was eliminated in FY 2008-09 and has not been restored. As with PASCAL, the return of funding in the state's budget for SmartState™ is critical. The program has resulted in direct investment approaching one billion non-state dollars in the South Carolina economy and the creation of over 5,000 jobs to date. An external evaluation by a prestigious national group cited the program as a –best in nation program. Through the recruitment to the state of a growing critical mass of national and international leaders in science and engineering, the engagement of the research universities in economic development has been significantly enhanced through new research and discovery, expansion and enhancement of graduate programs, the recruitment and retention of a growing number of the best and brightest graduate students in South Carolina and the nation, technology transfer, and commercialization. The SmartState™ Program has survived for the past four years 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 zero by the end of 2013. Due to funding constraints, new proposals will not be considered again this year. CHE requests that funding be restored to the greatest extent possible to continue this critical investment in South Carolina's future.

In concert with the technical colleges, we also support funding increases to ensure LTA levels are continued at least at the current level (\$936 per semester) which the Technical College System has estimated will require an increase of \$2.1 million. LTA improves access for students not qualified for merit programs who may be entering higher education for the first-time or returning to acquire training to enter or remain in the workforce. As with SmartState™, LTA is an investment that is critical for our state's economic future.

PASCAL, the state's electronic higher education library, is a special case. PASCAL lost over 90% of its budget in FY 2007-08, and the lost funding has not been restored. Budget reductions since July 1, 2008, have left the appropriation at \$164,289. The lost funding has resulted in increased costs and diminished resources for the state's participating public and independent colleges and universities. While additional funding may become available at the end of FY 2011-12 due to the inclusion of \$1.5 million for PASCAL as the first priority for any excess (uncertified) lottery unclaimed prize funds, stable core funding is critical to continued operational success. The state's public and independent colleges and universities are continuing their work together to sustain the program, but without restoration of essential funding from the state, the survival and continued success of this important statewide collaborative remains in jeopardy. The benefits of PASCAL for our students, faculty, and citizens are too great to ignore and risk losing. PASCAL is also a government best practice: colleges and universities, public and private, working together to maximize efficiency and quality. Cutting an effort of this kind sends a very negative message to efforts in government reform.

As described above, our first priority is the restoration of core funding for public colleges and universities and for programs managed by CHE that have been impacted in recent years. For the latter, CHE's specific agency requests are reflected in the attached requisite budget templates.

Beyond the funding requests mentioned above, CHE has requested at least level state funding for its administrative budget with the exception of increased recurring state funds of \$551,309 necessary to maintain level participation in Southern Regional Education Board (SREB) contract programs which support South Carolina students. There are also a number of entities whose funding passes through CHE. CHE does not have the authority to regulate their requests but we do have a responsibility to attach our recommendations. As reflected in the attached technical documentation, CHE is not recommending increased funding for these entities at this time in light of the current economic climate, but as indicated, CHE supports restoration to the extent possible of funding lost in recent year for these and other higher education programs.

In speaking of the restoration of cuts, CHE must again emphasize the relative downgrading of higher education as a state priority (share of the state budget)—particularly in general operating funding for the state's public colleges and universities. As illustrated previously, over the past decade, the share of the state's budget dedicated to higher education institutional operating funds including state support for student financial aid programs has steadily declined from an estimated 16% to 11% as of the current year. If the share of state funding for base operating support for our colleges and universities had been maintained, support for our higher education institutions would be over \$350 million higher than it is presently.

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 and the well-being of its citizens.

Sincerely,



Garrison Walters
Executive Director

ENCL

Transmitted to: Karen Rhinehart, Office of State Budget
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C: Kenneth B. Wingate, Chair, and Members of the SC Commission on Higher Education
Presidents, SC Public Colleges and Universities
Dr. Darrel Staat, Executive Director, State Board for Technical & Comprehensive Education
Julie Carullo, Deputy Director and Director of Governmental Affairs & Special Projects
Gary Glenn, Director of Finance, Facilities, and MIS