

House Ways and Means Committee
Higher Education, Technical, & Cultural Budget Subcommittee
Rep. Harry B. “Chip” Limehouse, Chair
Rep. B.R. Skelton
Rep. Garry Smith

Presentation on FY15 Budget Priorities
SC Commission on Higher Education
Richard C. Sutton, Ph.D.
Executive Director
January 8, 2014

Thank you, Chairman Limehouse, Rep. Skelton, and Rep. Smith for the opportunity to appear before your subcommittee today to present the Commission on Higher Education’s FY15 budget requests. You have seen our formal submissions of last October, and Ms. Littlefield has done her consistently thorough job of analyzing them for your consideration. I will keep my remarks brief so that we might have time to discuss the merits of our proposals in greater detail.

Affordability is THE dominant issue in higher education today, and it is the centerpiece of our FY15 budget request. We are asking you to invest state money to save South Carolina students and their families more of their own hard-earned money.

There are many ways to approach the challenge of college affordability. Tuition freezes, restoration of base budget cuts from past years, more and bigger scholarships, loan forgiveness, full funding of the state’s parity formula, “pay forward, pay back” programs, and many other ambitious proposals populate the landscape of higher education financial reform.

These are all big ideas—and I love big ideas—but they also have big price tags. If the General Assembly is ready to get serious about taking a big picture approach to college affordability this year, CHE is all in.

Our assessment of the state’s economic reality, regrettably, is that we’re not quite there yet.

I accepted this position nine months ago with the expectation that South Carolina will, during my tenure, craft a grand bargain to ensure that post-secondary education becomes an affordable, accessible, and value-added staple in the life of every state resident—young and old, urban and rural, black and white, rich and poor.

Our future depends on achieving that promise. Our economic prosperity, our fiscal health, our global competitiveness, and our quality of life will be determined by the big choices we make about the future of education at all levels in every corner of our state.

But this grand bargain is not just about money. It’s about restructuring the ways in which we provide higher education, increasing the value of the learning process, and creating an integrated full-frontal attack on this state’s underprepared, undereducated workforce.

This is a big idea that will require bold, steady action. It doesn’t have a quick fix, but it does have a strong, decisive resolution, if we all work together to achieve it.

Our budget proposal for FY15 gets us started on that path. We have requested funding that not only provides immediate and direct benefits to South Carolina's students and families, but begins the process of restoring consistency, predictability, and sustainability to support the structural reforms and innovations that will enable us to be successful in the long term.

A primary challenge facing SC students and their families is the increasing cost of attending and completing post-secondary education.

There are some simple, straight-forward, and proven things we can do to make a college education more affordable to more students, right now. These are important steps forward that can have an immediate impact on the pocketbooks of our students and their families.

They also help position us for the broader, more comprehensive restructuring of higher education funding and delivery that will be necessary to create a sustainable funding model for our future.

CHE's affordability initiative calls for a focused investment of **\$9 million** to support realistic, practical innovations that allow students to earn an associate's or bachelor's degree at less expense.

These innovations fall into two broad categories: (1) academic bridge articulations between two-and four-year degree programs; and (2) management innovations in program/course delivery, scheduling, competency-based learning, and other efficiencies that assist students in completing their degrees more quickly.

This funding will be awarded to institutions on a competitive basis to enhance, extend, and pilot proposed innovations that are focused directly on student affordability.

I should explain that our initial plan last summer called for the institutions to incorporate these innovations into their respective individual budget proposals, so that CHE would not be asking for this direct funding itself but would instead be supporting a host of coordinated institutional requests.

Only a couple of universities found themselves in a position to include this approach in their respective submissions, so the presidents advised us to put our affordability initiative forward as a separate budget request.

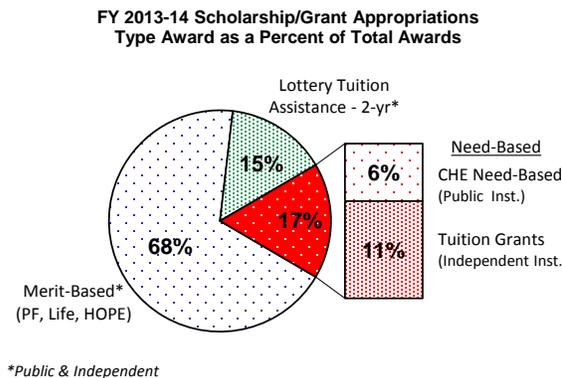
I did so with reservations, since I did not want to create unnecessary competition between a statewide initiative and the other worthy aspirations of each college and university.

Ultimately, I agreed that the value of this initiative deserved an open hearing, so that we could begin the process of allocating resources more equitably among the institutions through a rational procedure that was driven by clear objectives, transparent criteria, and firm measures of accountability.

We ask your support in granting our request to invest in the future of South Carolina's students and families through this practical, effective, and efficient initiative.

Also, in support of affordability measures, we are asking you to restore **\$2.6 million** for the state's need-based grants program. The funds for this program go primarily to students at public institutions who have documented financial hardship. A portion of the funds for this program also go to the independent institutions proportionate to their enrollment to supplement the state's need-based Tuition Grants

program, which Mr. Mayo will be presenting to you later this morning. The funds we are requesting would simply bring the program back to its 2012-13 level.



FY 2013-14 Total Appropriations by Program

TOTAL	\$333,747,157	100.0%
MERIT-BASED	\$228,288,535	68.4%
Palmetto Fellows	\$51,216,550	15.3%
LIFE	\$169,060,402	50.7%
HOPE	\$8,011,583	2.4%
NEED-BASED	\$56,358,622	16.9%
CHE Need-Based (Public)	\$20,950,000	6.3%
SC Tuition Grants (Indep.)*	\$35,408,622	10.6%
LTA, 2-Yr	\$49,100,000	14.7%

* Includes \$4.1M appropriated to CHE Need-based and allocated to Tuition Grants

We are further asking for continued full funding of the state’s merit-based scholarship programs, and level funding for lottery-tuition assistance for students at two-year institutions and for the SC National Guard College Assistance Program.

CHE is the state’s fiscal agent for two collaborative programs that produce significant value and cost-savings to our students, citizens, and institutions.

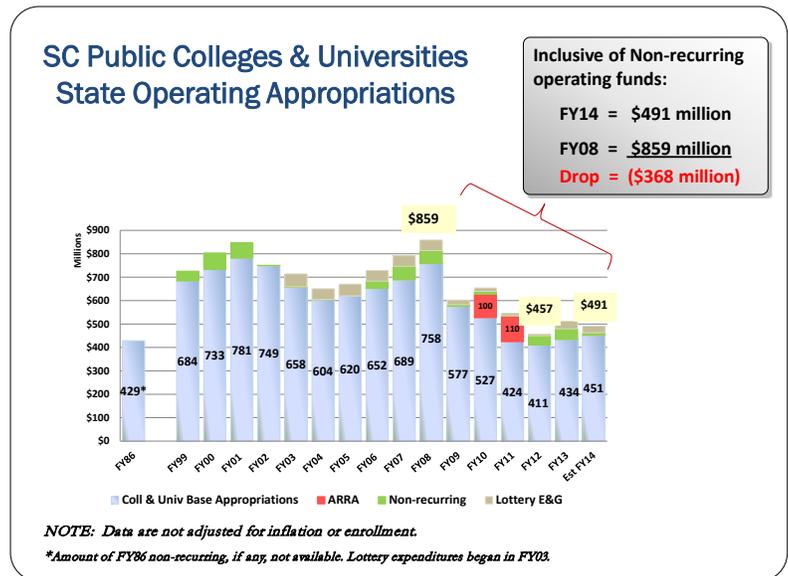
- You are all familiar with our state’s participation in the Southern Regional Education Board (SREB) and we’ve appreciated your past support of that membership. Our participation in SREB provides access to undergraduate and professional graduate degree programs across sixteen states. The funds provided for SREB largely support our state’s participation in SREB contract programs that provide access for 128 of our students to enroll in programs in other states in veterinary medicine and optometry. Marginal annual increases in the costs of these programs require a modest increase in appropriations of **\$180,810**.
- The Partnership Among SC Academic Libraries (PASCAL) provides cooperative sharing of physical and electronic resources among all of the state’s public and private academic institutions at greatly reduced rates. The state began investing in PASCAL in FY05 at \$2 million annually, but base budget support has declined to its current level of less than \$200,000. For the past several years, we’ve appreciated your support of the program by including it as a top priority in the excess unclaimed lottery prize fund list. However, as you know, these funds do not always become available and if they do, it isn’t known until the end of the year. A stable, predictable funding source will optimize this investment, and we are asking for restoration of **\$1.5 million** in PASCAL support in FY15.

Maintenance needs for our institutions’ capital infrastructure are an on-going cost of operation. SC has not established a reliable funding mechanism to deal with this predictable annual expense. On behalf of all of our colleges and universities, CHE is requesting a **minimum of \$40 million** to help manage this required investment. This is consistent with the much appreciated support you’ve provided in this area for the past couple of years.

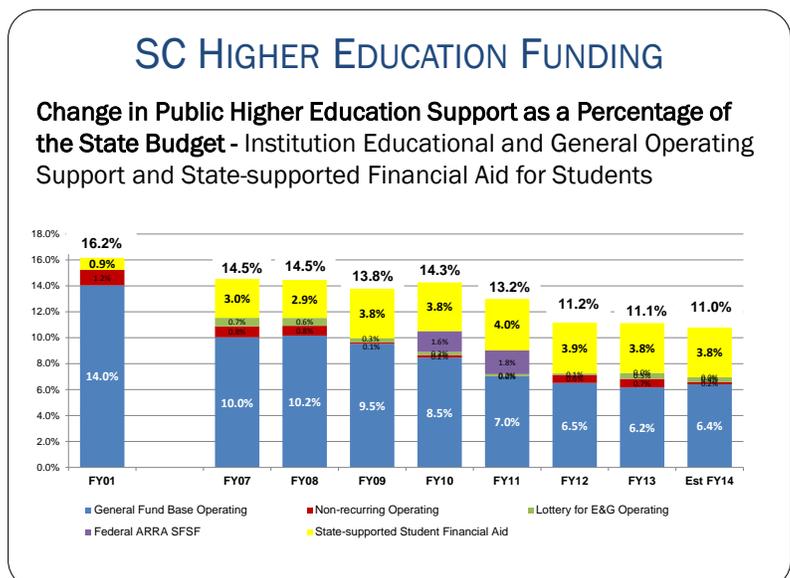
Finally, we are supporting a request for an EIA-funded CHE program through the Education Oversight Committee for upwards of **\$250,000** to create a new Center of Excellence focused on college and career readiness. We are also requesting a new proviso authorizing CHE to draw down SmartState funds upon certification that the institutions have met their matching requirements without having to appear before the Joint Other Funds Committee.

CHE continues to support strongly the imperative to recover lost ground in higher education investment. You have heard (and will hear again) many entreaties from CHE, the institutions, and the business community about the declining status of higher education funding in our state. The data are clear, and these concerns are valid.

- Our public colleges and universities lost nearly 50% of their institutional educational and general (E&G) operating budgets from the state during the recent recession.

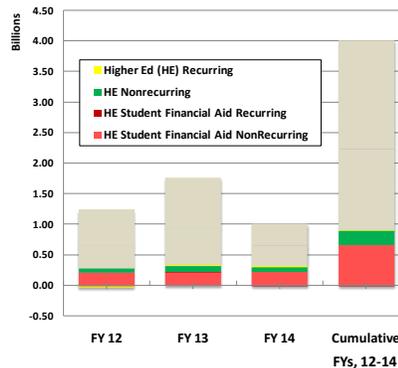


- Higher education funding for public colleges and universities (inclusive of state-supported scholarships and financial aid) has declined from 16% to 11% of the state's budget.



- Although higher education has benefited from nearly \$895 million in new state monies from all sources over the past three years, less than 1% of those dollars have been recurring base funding.

State Total and Higher Education Appropriations NEW Recurring and Non-Recurring (Surplus, Capital Reserve Fund, Lottery)

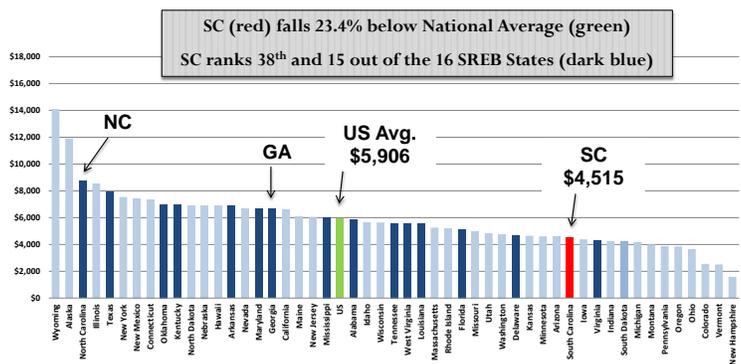


Over the past 3 years, \$4B in new recurring or one-time funds have been available.

- Higher Education received 22% (\$895M)
- Less than 1% of the higher education funds were recurring
- The majority (72%) of this higher education funding goes directly to students for scholarships & grants

- South Carolina's educational appropriations per FTE (including state-funded scholarships and grants) rank 38th in the U.S. and next-to-last among the 16 SREB states.

Educational Appropriations per FTE FY 2012 *(with state-supported scholarships/grants)*



Source: SHEEO State Higher Education Finance Survey, FY2012. Educational appropriations measure state and local support available for public higher education operating expenses and student financial aid for students enrolled in public higher education and exclude research hospitals, medical education. Federal ARRA Stimulus funds are included. Dollars are constant adjusted dollars using Cost of Living Adjustment (COLA), Enrollment Mix Index (EMI), and Higher Education Cost Adjustment. (HECA) (SHEEO rep 3-22-2013)

Ultimately we must find a new, sustainable process to fund higher education that reflects the changing realities of a global academic landscape. An accountability-based funding model such as Governor Haley has proposed could provide the platform we need to prepare the state's higher education system of the future. Other approaches have also been suggested.

Most of all, we need to create a true compact among all stakeholders—governments at all levels, the colleges and universities, business partners, business leaders, donors, students, faculty, and families—to take shared responsibility for our higher education enterprise.

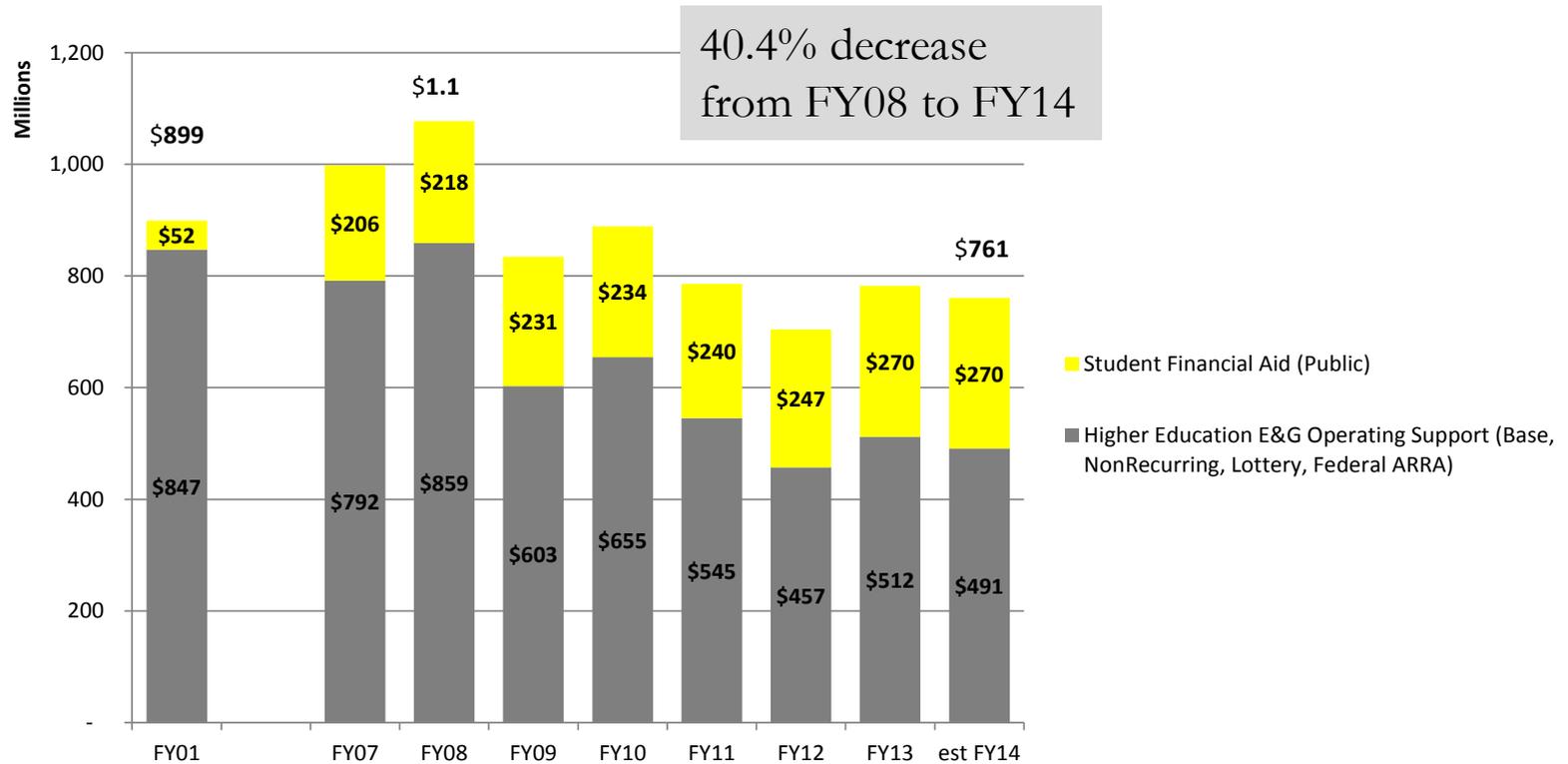
This is no easy task, but forging a coalition of commitment where each party has "skin in the game" to make this work is our best path forward to ensure a successful and prosperous South Carolina.

Thank you for your attention. I will be happy to respond to your questions and comments.

Additional Information Provided in Response to Questions:

- 1) SC Higher Education Funding: Graphic displaying dollars over time for E&G Operating Funding for Higher Education as depicted in the presentation graphic SC Higher Education Funding as a percentage of state funding
- 2) SC Public Higher Education Funding Total (Educational Appropriations and Net Tuition and Fees) over time. (SHEEO SHEF Data)

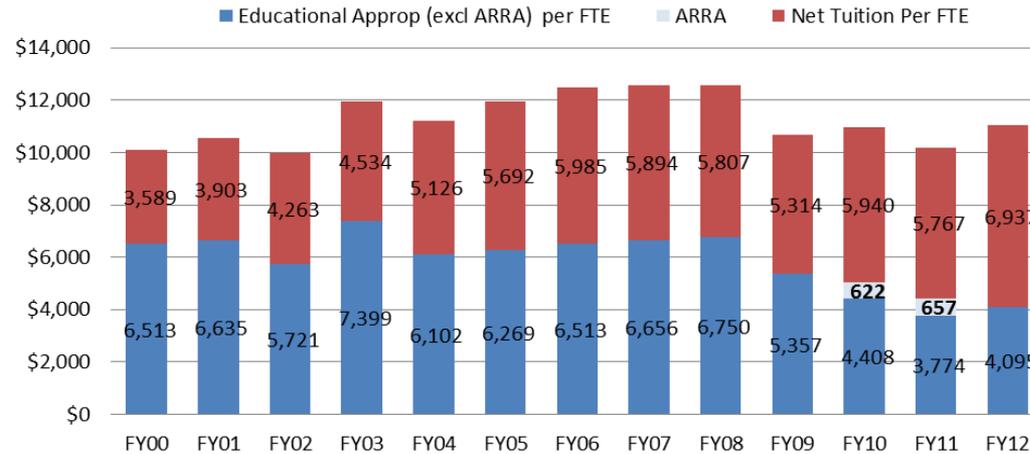
State Higher Education Funding: Instruction Educational and General Operating Support (Dollars) and State-Supported Financial Aid for Students



Instruction Educational and General Operating Support includes recurring funds, non-recurring and supplemental funds, lottery funds and federal ARRA funds for operating support at the state's public colleges and universities.

State Financial Aid: Scholarship and Grant expenditures (PF, LIFE, HOPE, LTA, Need-Based) at public colleges and universities.

SC Public Higher Education Educational Appropriations and Net Tuition Revenue Per FTE (Constant 2012)



SHEEO SHEF FY2012. Net Tuition includes debt service. Constant dollars HECA adjusted.

