

South Carolina Commission on Higher Education
Interpretation and Proposed Actions
under the
American Recovery and Reinvestment Act of 2009 (ARRA)
Revised: March 17, 2009

Overview

On February 17, 2009, President Obama signed the American Recovery and Reinvestment Act (ARRA) into law. Three general categories of the ARRA apply to higher education in South Carolina:

- 1) Benefits to students and families;
- 2) Competitive grants to colleges and universities to support projects, primarily in research; and
- 3) Direct flow-through support for public colleges and universities—the State Fiscal Stabilization Fund (SFSF).

This document will briefly describe categories 1) and 2), then provide considerable depth on 3). An attachment provides additional details on the three program categories and available funding.

Category 1) Benefits to Students and Families

- Pell Grants
- College Work Study
- American Opportunity Credit (Enhanced HOPE Education Tax Credit)
- 529 Savings Plans (amended to enable computer-related expenditures)

Category 2) Competitive Grants to Colleges and Universities

Principal areas of competitive grants include:

- Department of Agriculture grants for distance learning, telemedicine, and broadband;
- National Telecommunications and Information Administration Broadband Program including competitive grants for expanding public computing capacity including at community colleges and public libraries;
- National Institute of Science and Technology (NIST) grants for research science buildings;
- National Science Foundation (NSF) grants for research and related activities;
- National Institutes of Health (NIH) Health Professions Training grants and related NIH funding including health information technology;
- Department of Health and Human Services grants for construction, renovation and equipment, technology systems, and to address health professions workforce shortages
- Department of Interior grants for historic preservation projects for historically black colleges and universities
- US Department of Education “Teacher Quality Enhancement” grants/high need schools; and
- US Department of Education Institute of Education Sciences grants for statewide data systems.

Category 3) Direct Flow-through Support for Public Colleges and Universities: the State Fiscal Stabilization Fund (SFSF)¹

Key Elements

- \$53.6 billion over two years is dedicated to this section with \$268 million (one-half of one percent) appropriated to outlying areas on the basis of their needs as determined by the US Secretary of Education, \$5 billion reserved by the US Department of Education for State Incentive Grants (Sec. 14006) and Innovation Fund (Sec. 14007), \$14 million by US Department for administration, and \$48.3 billion for state allocations. The state allocations are based on a formula that provides 61% on the state's share of population 5-24 years of age and 39% on relative total population. State allocations not committed within two-years are reallocated to other states. For South Carolina, the state's allocation is estimated at \$694 million.
- Grants are made to the state's governor or to the state via legislative action if the governor does not request the funds within 45 days.² The governor or state must apply to the US Department of Education for the funds (Sec. 14005). Among other things, the application must include assurances (Maintenance of Effort) that the state will in each of fiscal years 2009, 2010, and 2011 (state fiscal year) *"maintain support for elementary and secondary education at least at the level of such support in fiscal year 2006"* and *"maintain State support for public institutions of higher education (not including capital projects or for research and development or tuition and fees paid by students) at least at the level of such support for 2006."* A waiver of the required assurances may be requested (Section 14012) from the US Department of Education.
- States must submit reports on the use of the funds to the US Department of Education as the Secretary desires, that describe: 1) use of the funds, 2) distribution of the funds, 3) the resulting number of jobs created or saved, 4) tax increases that were averted, 5) progress in reducing inequities in the distribution of highly qualified teachers, in implementing a longitudinal data system, and in developing and implementing assessments for limited English proficient students and children with disabilities; 6) tuition and fee increases for in-state students imposed by public institutions during the period of availability of the funds and any actions taken by the state to limit those increases; 7) the extent to which public institutions maintained, increased, or decreased enrollment of in-state students including those eligible for Pell Grants or other need-based financial assistance, and 8) a description of each modernization, renovation, and repair project funded including award amounts and projected costs.
- **The Governor or state must use at least 81.8% of the state's allocation for education.** Estimated funding at the 81.8% level for South Carolina is \$568 million. The available funds from the state's allocation are to be used to:
 - Restore primary K-12 formula funding in each of fiscal years 2009, 2010, and 2011 to the greater level of the 2008 or 2009 fiscal levels
 - Restore support for higher education public institutions in each of fiscal years 2009, 2010, and 2011 to the greater of the 2008 or 2009 fiscal year levels
 - If the funds are not sufficient to restore those levels, the Governor or state shall allocate the funds *"in proportion to the relative shortfall in State support for the education sectors."*
 - If any funds remain after restoring shortfalls, they are to be used to provide local educational agencies with subgrants based on their relative shares of funding under Part A of Title I of the Elementary and Secondary Education Act of 1965.

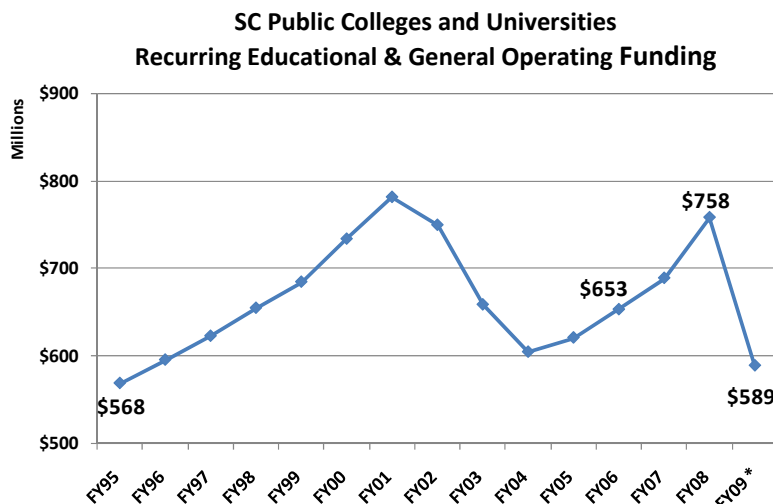
¹ See ARRA Title XIV, State Fiscal Stabilization Fund, Department of Education, Sec. 14001 – Sec. 14013.

² Title XVI, Sec. 1607.

- **The Governor or state shall use the remaining 18.2% of the state's allocation for public safety or other government services**, which may include assistance for K-12 and higher education including modernization, renovation, and repair projects. 18.2% of SC's estimated allocation is \$126 million.
- Public higher education institutions receiving funds *"shall use the funds for education and general expenditures, and in such a way as to mitigate the need to raise tuition and fees for in-state students."* Funds may also be used for modernization, renovation, and repairs that are consistent with a recognized green building rating system. Funds may not be used for maintenance of systems, equipment, or facilities; modernization, renovation, or repair of stadiums or other facilities primarily used for athletic contests or exhibitions or other events for which admission is charged to the general public or for facilities used for sectarian instruction or religious worship or in which a substantial portion of the functions of the facilities are subsumed in a religious mission. (Sec 14004).

General Observations—Maintenance of Effort

Given that South Carolina is already \$64.2 million below FY 2006 recurring E&G funding for the colleges and universities, the requirement that the governor or state "assure" at least the fiscal year 2006 level of support in 2009 and 2010 presents a substantial challenge for us. (See page 2 for a description of the required assurances to enable SC to access the state's allocation of which 81.8% is to be expended on the greater of the FY 2008 and 2009 K-12 and higher education shortfalls.)



(in Millions)

To Reach 2006

FY 06 = \$653

FY 09 = \$589*

= \$64

2008 Shortfall

FY 09 = \$589*

FY 08 = \$758

Drop = (\$169)

*FY09 is as of December Reductions

General Observations—Higher Education's Need for SFSF Funding

- Institutional recurring operating funding has been reduced over \$169 million since FY 2008 – a 22.4% reduction in state support. (Additional cuts are expected.)
- Based on a national study³ (published prior to SC's December reductions), SC, with a 17.7% reduction, led the nation in higher education decreases – a reduction almost twice that of the next highest state, AL at 10.5%
- In real dollars, operating support for higher education is at the levels of FY 1995.
- In constant dollars (using HEPI), current funding represents 61.6% of FY 1995.
- Capital support is a critical component and SC has not had general obligation bond since FY 2001. Considering operating and capital support for higher education, SC's average investment of \$5,150 over the past 10 yrs significantly trails NC at \$9,192 and GA at \$8,278.

³ Grapevine Report (January 2009), Illinois State University, Center for the Study of Education Policy. Data prior to SC's December reductions.

Proposed Distribution of Funds

- Higher education's share of funds should be allocated on the basis of the cuts that institutions have taken to date. This position was the consensus of an earlier meeting including all presidents and CHE and confirmed in a later meeting of representative sector presidents.
- For funds under the 18.2% allocation, identify and recommend statewide priorities that could be funded and advocate for inclusion of these priorities in the state's application package. CHE discussed initially with presidents and continued discussions with identified sector representatives. **See Attached for Initial Listing of Suggested Priorities on page 5.**

Allocations as Recommended by House Ways & Means and Passed by the House

- House recommendations include the allocation of \$350 million of the SFSF funds (approximately half of anticipated SFSF allocation) for FY 2010. SFSF funds were provided to K-12 and higher education institutions for formula/shortfall purposes, and to K-12, the Department of Corrections, and the Department of Juvenile Justice for other government services. Under the recommendations, the state would have to request a waiver since the assurance would not be met relative to higher education. For higher education institutions, funding was not restored to FY 2006 level and base funding was not cut further for FY 2010. For K-12, base student cost funding was reduced \$93 million.
- Although significant, the outcome is not final. The Senate, Governor, and US Department of Education still have important roles to play.
- Allocations of the SFSF funds in the House budget for FY 2010 are shown below. For higher education institutions, funds were allocated across individual institutions based on recurring budget shortfalls since FY 2008. The \$119,673,400 provided to higher education institutions represents only 70.6% of institutional cuts as of December.

House Budget - ARRA Recommended Allocations, FY 2009-10			
State Fiscal Stabilization Funds			
	ARRA SFSF	% of Total ARRA SFSF	% of Section
Total SFSF Allocated	350,000,000	100.0%	
Formula	286,300,000	81.8%	100.0%
K-12 EFA Base Student Costs	166,626,600	47.6%	58.2%
Higher Education Institutions	119,673,400	34.2%	41.8%
Other Government	63,700,000	18.2%	100.0%
K-12, Transportation/Bus Shop	17,500,000	5.0%	27.5%
K-12, CDEPP	17,300,000	4.9%	27.2%
K-12, Assessment	4,500,000	1.3%	7.1%
K-12, Nat'l Board Certification Incentive	13,400,000	3.8%	21.0%
Dept. of Corrections Operating Deficit	3,400,000	1.0%	5.3%
Dept. of Juvenile Justice, Operating Deficit	7,600,000	2.2%	11.9%
Other ARRA Funds			
	Other ARRA	% of Other ARRA	
Other ARRA Total	304,614,210	100.0%	
K-12, Title 1 & IDEA	196,968,971	64.7%	
Medicaid	107,645,239	35.3%	

DISCUSSION DRAFT
South Carolina Higher Education
Statewide Projects for State Fiscal Stabilization Fund
Revised: March 2, 2009

Core Criteria

- Projects advanced for consideration will be structured as one-time investments (over two fiscal years) that have the ability to reduce subsequent costs over many years.
- To the extent practicable, projects advanced for consideration will have statewide benefit.

DRAFT Description of Possible Projects

Priority	Title	Description	Investment Range	
			FY10	FY11
1	PASCAL	Investment in purchase of PASCAL infrastructure (e.g. databases) that would lower ongoing subscription or other costs.	\$500K-\$1M	\$500K-\$1M
2	Adult Education	South Carolina must educate large numbers of adults to be competitive in the knowledge economy. The New Front Door concept has been strongly endorsed by the business community (New Carolina) and is a priority in higher education's Action Plan. SFSF funds would be used for start-up costs including the final stage of materials design, a comprehensive database, and college pilots. The Department of Education's Adult Education Division would be involved as would be the state's literacy councils.	\$125K	\$250K
3	SC LightRail	Investment in the South Carolina LightRail network backbone in a way that will support statewide expansion of SC LightRail connectivity to colleges and universities. Costs could include leased fiber, lighting gear, switches, and (potentially) offset of last-mile connections. Making as many institutions as possible competitive for federal and other connectivity grants would be a principal objective.	?	?
4	Distance Education	South Carolina colleges and universities could work together to offer degrees, primarily online, in which the participating institutions share course offerings to increase efficiency and possibly also quality. Degrees would be offered by the institutions. The model would be similar to that used in Tennessee. A recommendation for this approach is included in the Action Plan.	\$500K	\$250K
5	Shared resources—"back office"	Multiple colleges and universities, perhaps beginning with those in a particular region, could share integrated ERP (Enterprise Resources Planning) software and infrastructure. Development costs for new systems are high, and integrating multiple institutions magnifies the costs, but long-term savings are potentially huge.	?	?
6	???			
7	???			

American Recovery and Reinvestment Act of 2009 Higher Education Opportunities

Benefits to Students and Families

Pell Grants

\$17.11 billion program increase

SC Actual in 2008: \$247,989,175

SC Estimated 2009 ARRA Increase: \$101,597,869

Awards for students starting July 1 will increase from a maximum of \$4,731 to \$5,350 and will increase again in 2010 to \$5,550. Funds are provided to fill shortfalls and provide for increases in grants.

The Federal Pell Grant Program provides need-based grants to low-income undergraduate and certain post-baccalaureate students to promote access to postsecondary education. Grant amounts are dependent on: the student's expected family contribution (EFC) (see below); the cost of attendance (as determined by the institution); the student's enrollment status (full-time or part-time); and whether the student attends for a full academic year or less.

College Work Study

\$200 million program increase to expand this program which provides paid work-study for college students through part-time employment to assist students in financing the costs of postsecondary education.

SC Actual in FY2008: \$13,015,874

SC Estimated 2009 ARRA Increase: \$2,654,967

American Opportunity Tax Credit

Under ARRA, the Hope Credit is now being called the American Opportunity Tax Credit.

ARRA increases allowable tax credit from a maximum of \$1,800 to \$2,500 per eligible student per year for qualified tuition and related expenses. Course materials are now included as part of qualified expenses. The credit applies to each of the first 4 years of the student's post-secondary education in a degree or certificate program (previously only 2 years). Also allows up to 40% of the credit to be refundable for those low-income students who end up having no tax liability. Provides for a phase-out as income rises (\$160,000 with phase-out up to \$180,000 for married and \$80,000 with phase-out up to \$90,000 for single). The Hope credit applied only to the first two years and was not refundable.

529 Savings Account

Under ARRA, now allowed to pay for computers and computer related technology and internet access for beneficiaries.

Competitive Grants to Colleges and Universities

SC Estimated Share – Unknown

Within various sections and titles of the ARRA, there are billions of dollars to be distributed via competitive grants based on proposals submitted independently to various federal agencies. Listed below are some of the principal areas of competitive grants for which SC's higher education institutions may be eligible to submit proposals. The list is not intended to be exhaustive. Announcements are beginning to be posted for some of these opportunities at <http://www.grants.gov/applicants/recovery.jsp>.

Department of Agriculture – 2.5 billion for distance learning, telemedicine and broadband

National Telecommunications and Information Administration Broadband Program – \$4.7 billion with not less than \$200 million available for competitive grants for expanding public computer capacity including at community colleges and public libraries

National Institute of Science and Technology (NIST) - \$220 million in grants for scientific and technical research services and \$360 million for construction of research facilities of which \$180 million is for competitive grants program for research science buildings.

National Science Foundation (NSF) – \$2.5 billion in grants for research and related activities of which \$300 million is available for major research instrumentation program and \$200 million for activities under title II of PL 100-570 for academic research facilities modernization and \$100 million for education and human resources and \$400 million for major research equipment and facilities construction

National Institutes of Health (NIH) Health Professions Training – \$1.3 billion in grants for non-federal construction, renovation, and repair and equipment and \$7.4 billion in grants for scientific research related NIH funding including health information technology

Department of Health and Human Services – \$1.5 billion in grants for construction, renovation and equipment and for the acquisition of health information and technology systems and \$500 million to address health professions workforce shortages (funds may provide scholarships, loan repayment, and grants to training programs for equipment)

Department of Interior – \$15 million in grants for historic preservation projects for historically black colleges and universities as authorized by Historic Preservation fund of 1996 and Omnibus Parks and Public Land Act of 1996

US Department of Education *Teacher Quality Enhancement* grants/high need schools – \$100 million

US Department of Education Institute of Education Sciences grants – \$250 million for section 208 of the Education Technical Assistance Act which can be used for statewide data systems and include postsecondary education and workforce information.

Direct flow-through support for Public Colleges and Universities —
State Fiscal Stabilization Fund (SFSF)

SC Estimated Share – State Allocation at \$694,060,272 / Other Unknown

\$53.6 billion over two years is dedicated to this section

- \$14 million by US Department for administration
- \$268 million to outlying areas on the basis of need as determined by the US Department of Education
- \$5 billion reserved by the US Department of Education for State Incentive Grants (Sec. 14006) and Innovation Fund (Sec. 14007)
- **\$48.3 billion for state allocations.** The state allocations are based a formula that provides 61% on the state's share of population 5-24 and 39% on relative total population. State allocations not committed within two-years are reallocated to other states.
 - **SC's Allocation is estimated at \$694 million with \$568 million for K-12 and Higher Education formula funding for shortfalls and \$126 for other government which may include K-12 and Higher Education**