

**GEORGIA STATE SENATE
BUDGET AND EVALUATION OFFICE**

Chairman's Column

September 18, 2009

Back to the HOPE Scholarship

Two weeks ago we discussed the background of the HOPE Scholarship Program and the triggers set up by the legislature. This week we will look at the Pre-Kindergarten Program and Lottery Fund Reserves.

Pre-Kindergarten Program

While most lottery proceeds, 63 percent, are spent on the HOPE Scholarship Program, the remaining proceeds, 37 percent, are used to fund the state's Pre-Kindergarten (Pre-K) Program. A pilot program was created in 1992 to prepare 750 at-risk four year olds for kindergarten. In 1995, the program was expanded to all four year olds regardless of income due to the continued growth in lottery funds. Since its inception, over 866,000 four year olds have participated in Pre-K.

The program, which is now operated by the Department of Early Care and Learning, is only available to Georgia residents and is voluntary for both families and providers. Public schools and private development child centers are not required to offer Pre-K programs, so the number of spaces available may not match demand in a particular area. While Pre-K programs maintain waiting lists, the department also helps families find Pre-K classes in other areas. Lack of a capital outlay component has caused some systems to drop Pre-K programs. Unlike HOPE program expenditures, which increase automatically depending on the number of participants and the cost of tuition, the legislature must appropriate funds to provide additional slots in the Pre-K Program. This has helped to control program growth.

The fiscal year 2010 budget provided \$350 million for the Pre-K program, a 3.5 percent increase over the 2009 General budget, including \$12.5 million for 3,000 new Pre-K slots to provide a total of 82,000 slots. However, while appropriations grew 3.5 percent between FY09 and FY10, because enrollment will grow at 3.8 percent due to the additional slots, real spending per student will actually decline.

Lottery Fund Reserves

Fortunately, the Lottery for Education account has substantial reserves to fund both the HOPE Scholarship Program and the Pre-K Program. At the end of fiscal year 2009, total reserves equaled \$998.5 million, which is more than a full year of funding for all lottery programs. These reserves are kept in three accounts maintained by the Georgia Lottery to fund education programs.

1. The Scholarship Shortfall Reserve Sub account contains an amount equal to 50 percent of the total amount of lottery proceeds disbursed during the preceding fiscal year in the form of scholarships and grants for higher education. The FY08 year-end balance for this account was \$239,770,942.

2. The Shortfall Reserve Sub account is equal to 10 percent of the total amount of net lottery proceeds deposited into the Lottery for Education Account for the preceding fiscal year. The FY09 year-end balance for this account was \$85,835,500.
3. At \$672.9 million, the third and most notable of the reserve funds is the Unrestricted Reserve Sub Account, which is comprised of all unexpended and uncommitted funds and makes up approximately two-thirds of the entire reserve. It is this reserve account that is tied to the triggers set up by the legislature.

If current trends continue, it is expected that Georgia students could feel the effects of the first trigger cutting book fees as soon as 2012, which would save \$18.2 million. Because the initial benefit reduction offers only a slight savings compared to program growth, it is likely that the second trigger would go into effect in 2013 and the third in 2014. These triggers would eliminate book fee payments.

HOPE Finances

Even with such large reserves, programmatic changes need to be considered to ensure future financial stability. While post-secondary enrollment and tuition are expected to continue to increase, deposits in the Lottery for Education account have leveled off. The Georgia Lottery fears that it will no longer be able to keep up with increasing expenditures from both the HOPE Program and Pre-Kindergarten Programs. Two years after the lottery's inception, lottery deposits grew at a rate of 6.89 percent a year from fiscal year 1996 to 2000. From 2000 to 2005, the rate dropped to 3.90 percent. In the last fiscal year, lottery deposits only increased by 0.51 percent. The percentage of lottery sales going to education has fallen from 33 percent to the present 24 percent.

While lottery growth has leveled off, the opposite is true of expenditures. From 2000 to 2010, the number of students receiving the HOPE Public Scholarship award increased by 56 percent. But during that same time period, expenditures more than tripled. The HOPE Grant shows a similar picture with spending increasing at twice the rate as the number of awards given.

Impact on Tuition

While tuition increases are the greatest driving force in the growth of HOPE expenditures, compared to other southern states, Georgia's tuition growth has been rather minimal. Due to concerns regarding the fiscal situation of HOPE, the Board of Regents has been hesitant to raise tuition statewide. According to the Southern Regional Education Board, tuition at Georgia's four year colleges has increased 31 percent from 1998 to 2008. That is 17 percent less than the national average and 43 percent less than other southern states. For two year colleges, tuition has increased 26 percent, which is 2 percent less than the national average and 19 percent less than the average for southern states. Even with lower tuition rates, 83 percent of Georgia students receive a grant, loan, or both, compared to the national average of 62 percent.