GEORGIA STATE SENATE
BUDGET AND EVALUATION OFFICE

Chairman's Column
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THE FUTURE OF HOPE

Last week's column looked at the Pre-Kindergarten program and the current financial situation of the HOPE program. This week we will examine the impact additional growth in the number of HOPE recipients and the cost tuition could have on the HOPE program. We will also explore possible contingency plans if growth in HOPE expenses continues to outpace growth in lottery revenues.

PROGRAM PROJECTIONS

As discussed in the first HOPE column, the program is expected to run a deficit in the current fiscal year. This means HOPE will need to use part of the $672.9 million in unrestricted lottery reserves to meet the program's needs in FY10. While the Legislature has established a system of funding triggers designed to slow the depletion of reserves in this situation, the first trigger, reducing the book allowance from $300 to $150, will not go into effect until FY12. This is due to the nature of when appropriations bills are written. The FY11 budget will be set in the spring of 2010, before the end of FY10. A year end deficit in the HOPE program in FY10 will occur too late to change the FY11 appropriation. Therefore, the earliest budget the trigger can affect is FY12.

Once the first trigger is implemented, it will likely save the program $18.2 million in FY12, but that would be less than 10 percent of the expected FY12 deficit. As the program continues to run a deficit, the next two triggers would first eliminate the remaining $150 for the book allowance and then eliminate coverage of fees. However, the combined savings of all three triggers is still unlikely to outweigh the growing deficit, which by FY14 could be more than $300 million. This assumes that lottery expenditures for the Pre-Kindergarten Program and other Lottery Scholarships remain constant and that lottery revenues continue to grow. Any additional allocations to other lottery funded programs or reduction in lottery revenues would further increase the year-end shortfalls.

Once the $672.9 million in unrestricted reserves is depleted, which could be as soon as FY13, the program may access two other lottery reserve accounts to cover funding shortfalls. The program is mandated to first use the Scholarship Shortfall Reserve Account. If that fund is insufficient to meet program needs, the program may dip into the Shortfall Reserve Account. Combined those two reserve accounts hold $325.6 million. As the FY14 deficit could exceed $300 million, the full amount of those two reserve accounts could be depleted in one fiscal year.

PREVIOUS RECOMMENDATIONS

In 2003, the HOPE Scholarship Study Commission developed a contingency plan to be considered if HOPE expenditures continuously exceed available revenues and reserve accounts were in danger of being fully depleted. The contingency plan included four recommendations:

1. Include SAT scores as part of the program criteria
2. Use the End-of-Course Tests to also determine eligibility
3. Increase the GPA requirement from 3.0 to reduce the number of eligible students
4. Convert the tuition payment to a flat-grant award

THE CASE FOR A FLAT AWARD

Some of these measures are similar to steps the other eighteen states with state-run scholarship programs have implemented to mitigate increasing costs. When the Commission met in 2003, half of those other states tied eligibility to SAT or ACT scores, including Florida, South Carolina, and Tennessee. Implementing an SAT or ACT score requirement would reduce eligibility for the scholarship and slow the growth in expenditures for the program.

Additionally, rather than further restricting eligibility for the scholarship to reduce expenses, the state could convert the award to a flat grant instead of one tied to tuition. Tuition increases have significantly impacted HOPE expenditures over the last ten years. From 2000 to 2010, 64 percent of the increase in expenditures for the public scholarship was attributable to increases in tuition. Again, in considering other states with scholarship programs, twelve of the eighteen only offer a flat-grant award instead of an award tied to tuition. Nevada awards a set rate per credit hour taken for either a four year institution or community college. As discussed earlier, the Board of Regents has been hesitant to raise tuition due in part to a fear of financially overwhelming HOPE. Moving toward a flat-grant award would remove that obstacle.

OTHER OPTIONS

Finally, Georgia Code mandates that if the state must use the two reserves accounts mentioned earlier to meet program demand in a given year, the program must be reviewed and amended to meet current lottery proceeds. The Georgia Code includes two options outside of reducing or eliminating grants for fees and books as would be done through the current system of triggers. This includes either reducing the number of academic years that would be funded by the scholarship or reducing the family income cap qualification. During the program's first two years, the program was means tested. Originally, the family income limit was set at $63,000, and then increased to $100,000. However, with the continued increase in lottery revenues, those requirements were eliminated and there is currently no restriction on a family's income to receive HOPE.

Changes to the HOPE Scholarship are politically charged. And, even removing the Pre-K program from lottery funding and putting it into general funding, would be dependent on better economic times. Of course, if the lottery starts growing significantly again, no decision might be necessary.