



GBPI

Georgia Budget and Policy Institute

Thoughtful Analysis...Responsible Policy

House Bill 326: Policy Proposals and Options for Reforming HOPE and Pre-K

By Cedric D. Johnson, Policy Analyst

Summary

On February 22, 2011 Governor Nathan Deal presented his plan for reforming Georgia’s Helping Outstanding Pupils Educationally (HOPE) and Pre-K programs. Today the two lottery-funded programs face a structural deficit in which annual expenditures exceed annual lottery revenue. Gov. Deal’s plan aims to address this fiscal challenge by incorporating restrictions to the HOPE program and cutting benefits across programs to maintain the existing balance among HOPE programs and Pre-K. HOPE scholarship and grant awards will no longer cover full tuition, while HOPE funding for books and fees will be eliminated. The governor proposes cutting the Pre-K program from a 6.5-hour day to a four-hour day. Other proposed changes to the HOPE and Pre-K programs are highlighted in this policy brief. This brief concludes by highlighting the importance of HOPE reform and opportunities to strengthen the governor’s proposed plan.

Hope Overview

Since its inception, Georgia’s HOPE program has helped make a post-secondary education more affordable for more than 1.2 million Georgia students, while the Pre-K program reaches more than 80,000 four-year-olds annually. However, these prized programs have reached a critical crossroads. Today the lottery-funded HOPE and Pre-K programs face a fiscal challenge in which annual expenditures exceed lottery revenue, with FY 2010 expenditures of \$1.01 billion and lottery revenue of only \$884 million.

Georgia’s HOPE program was created in 1993 and consists of several

Figure 1: HOPE and Pre-K Programs, by Expenditures

| | FY 2011 |
|--|------------------------|
| HOPE Programs | Original Budget |
| Accel | \$5,764,625 |
| College Opportunity Grant | \$15,000,000 |
| Engineer Scholarship | \$550,000 |
| Georgia Military College Scholarship | \$1,228,708 |
| HOPE GED | \$2,573,864 |
| HOPE Grant | \$206,318,361 |
| HOPE Scholarship - Private Schools | \$59,332,133 |
| HOPE Scholarship - Public Schools | \$474,575,353 |
| Public Safety Memorial Grant | \$306,761 |
| Total HOPE Program Expenditures | \$765,649,805 |
| Pre-K Program | \$355,016,656 |
| Total Lottery Expenditures | \$1,120,666,461 |

Source: Original FY 2011 Budget

THOUGHTFUL ANALYSIS...RESPONSIBLE POLICY

programs, with the HOPE scholarship and HOPE grant constituting the two largest expenditure programs (Figure 1). Both HOPE programs, as well as Georgia's Pre-K program, are solely funded with state lottery revenue. The HOPE scholarship initially covered full tuition for two years of college for students from families with an income of less than \$66,000. In 1995, the income cap was eliminated and HOPE was expanded to cover four years of college. Today, eligible students who graduate from high school with a 3.0 grade point average (GPA) or higher and attend a post-secondary institution within the University System of Georgia (USG) receive a HOPE award that covers full tuition and approved fees, and are provided a book allowance.¹ Eligible students who attend a private post-secondary education institution in Georgia are awarded a HOPE scholarship of \$2,000 per semester.

The HOPE grant covers full tuition and approved fees, and provides a book allowance to eligible students seeking a technical certificate or diploma from a Technical College System of Georgia (TCSG) institution or a USG institution. The Georgia Pre-K program began as a pilot program in 1992 with 750 at-risk four-year-olds. In 1995, Pre-K was opened as a voluntary program to all four-year-old children in Georgia, and currently serves 84,000 children annually.

The Governor's Plan

Projected expenditures for the HOPE program for FY 2012 total \$896 million.² The governor's proposed budget for FY 2012 allocates \$497 million to the HOPE program, which creates a \$306 million funding gap. Proposed changes by the governor to the two largest HOPE programs, HOPE scholarships and HOPE grants, and Georgia's Pre-K program include:

HOPE Scholarship (total estimated savings: \$271.1 million³)

1. Decouple HOPE award from tuition and adjust awards each year based on lottery revenue. For FY 2011, HOPE awards for public colleges and universities would equal 90 percent of standard tuition rates for FY 2011. HOPE awards for private colleges and universities will equal 90 percent of the current \$4,000 award amount. (estimated savings: \$133 million)
2. Create the Zell Miller Scholarship program, which provides full tuition HOPE awards to Georgia students graduating with at least a 3.7 GPA and who score at least a 1,200 on the SAT or a 26 on the ACT.
3. Eliminate HOPE funding for remedial courses, books, and fees. (estimated savings: \$131.9 million)
4. Allow students who lose the HOPE scholarship one chance to re-gain HOPE. (estimated savings \$2.4 million)
5. Institute a seven year eligibility period for HOPE scholarship, and impose a 127 semester hour cap for all students. (estimated savings: \$3.8 million)
6. Require high school graduates, beginning in 2015, to have taken a determined number of courses in high school in order to be eligible to receive the HOPE scholarship.
7. Maintain current system of paying HOPE awards in full without taking Pell Grant eligibility into account.
8. Permit service cancel loans for Georgia's One Percent Student Loan Program. This loan program provides low-interest loans for eligible students seeking to earn a post-secondary education. These loans will be forgiven if loan recipients become certified and teach in a Georgia public K-12 school in science, technology, engineering, and mathematics (STEM) fields.

Positives: Decoupling HOPE scholarship awards from tuition is a prudent option for addressing rising tuition costs. Furthermore, eliminating HOPE funding for books and fees is reasonable given the fiscal realities of the HOPE program. In addition, ensuring that Pell Grants do not affect HOPE awards and enhancing the One Percent Student Loan Program signals thoughtful efforts to make higher education more affordable for students from moderate- and low-income families. The creation of a Zell Miller Scholarship program ensures continued focus on attracting and retaining Georgia's top students.

Concerns: Allowing HOPE scholarships and grants to be adjusted annually introduces uncertainty for students eligible for HOPE awards. Families creating a financial plan now will be required to do so without knowing what amount HOPE awards will be in future years. Furthermore, future increases in the cost of education, together with the elimination of HOPE funding for remedial courses, books and fees, create additional post-secondary costs that could adversely impact students from moderate- and low-income families.

HOPE Grant (total estimated savings: \$18 million)

1. Decouple HOPE award from tuition. For fall 2011, HOPE grants would equal 90 percent of the FY 2011 grant award. Award amounts would adjust each year based on lottery revenue.
2. Require students to earn a 3.0 GPA by the first HOPE checkpoint once enrolled in technical college courses. (estimated savings: \$15 million)
3. Students already possessing a post-secondary degree are ineligible to receive HOPE grant. (estimated savings: \$2.8 million)
4. Establish a cap of 95 quarter hours, or 63 semester hours, for all students. (estimated savings: \$250,000)

Positives: Decoupling HOPE grant awards from tuition offers a prudent option for addressing rising tuition costs.

Concerns: With nearly 73 percent of HOPE grant recipients coming from families earning \$40,000 or less in FY 2010, annual adjustments to grant awards introduce risks and uncertainty.⁴ Future increases in the cost of education, together with the elimination of HOPE funding for books and fees, could restrict access to post-secondary education and technical training for students from moderate- and low-income families. Moreover, a 3.0 GPA requirement would result in a significant number of students no longer qualifying for the HOPE grant, which further restricts access to post-secondary education and technical training. Georgia's technical college system serves as a valuable economic development resource. Proposed restrictions to the HOPE grant stands to limit the range of human capital available to businesses deciding whether to remain in, or locate into, the state.

Georgia Pre-K (total estimated savings: \$45 million)

1. Cut Pre-K program from 6.5 hours to four hours. (estimated savings: \$54 million)
2. Add 5,000 Pre-K slots. (estimated cost: \$18 million⁵)
3. Increase funds for transportation and extended day, as well as increase funds to enhance the quality of the Georgia Pre-K program. (estimated costs: \$8.7 million)

4. Eliminate the Transition Coach program. (estimated savings: \$9 million)

Positives: The governor's plan keeps Georgia's Pre-K program universal and expands access by adding 5,000 additional slots. Furthermore, funding for transportation and extended day services are included in the plan. Such funding is important in helping provide vital Pre-K services to low-income and at-risk families.

Concerns: Cutting the Pre-K program by 2.5 hours creates additional costs for families with youth in the Pre-K program. With a limited Pre-K day, families will incur the cost of after-school or daycare services. With instructional time being particularly important for low-income and at-risk youth, a shortened Pre-K program ultimately reduces maximum instructional resources that can be offered during a six hour day. Quality Pre-K programs are an important component of the education pipeline, as cognitive and social skills of youth are developed, which have an impact on future learning.

Moreover, a reduction in per capita funding for Pre-K could result in access to Pre-K services becoming a greater challenge. If private providers decide to no longer participate in the Pre-K program, this could reduce the overall availability of Pre-K slots in the state. A reduction in private providers, together with a waiting list of more than 4,000 youth, would make the challenge of Georgia Pre-K program becoming universal in reality greater.⁶

Additional HOPE reform changes include:

1. HOPE GED program will continue to be funded with lottery funding.
2. The following programs are currently funded with lottery funding, but will now be funded through state general appropriations:
 - Accel Program (estimated savings: \$5.7 million)
 - Public Safety Memorial Grant (estimated savings: \$306,761)
 - Engineer Scholarship Program (estimated savings: \$550,000)
 - Georgia Military College Scholarship (estimated savings: \$1.2 million)
3. Elimination of two (of three) existing lottery reserves, with a shortfall reserve retained and required to have a balance of at least 50 percent of net lottery deposits from the preceding year.

Policy Considerations

The governor presents a prudent approach to reforming HOPE. The plan appropriately incorporates restrictions to the HOPE program and makes reductions across programs to maintain the existing balance among HOPE programs and Pre-K. Furthermore, decoupling the HOPE award from tuition represents a responsible approach to helping control costs, while maintaining the existing Pell Grant provision helps make higher education more affordable for moderate- and low-income families.

Nevertheless, reforming the HOPE program highlights a greater challenge Georgia faces today, which goes beyond projected lottery revenues and the unsettling rise in tuition. Georgia is challenged with determining what level of economic vitality it envisions for the future, and how

best to invest limited resources to realize that vision. This critical debate needs to include discussion by all Georgians on whether we want to continue with the status quo. Would we get a greater “bang for the buck” in education by shifting priorities at this critical crossroads?

For example, Georgia could prioritize universal Pre-K and open access to technical education and training. The state could maintain a six hour pre-K day and resist a 3.0 GPA limitation for technical education, which would limit access for almost one-third of current students seeking technical education. Greater investment in Pre-K presents a greater opportunity to reduce future educational costs, such as remedial and support services, which creates more funding for K-12 and higher education. Furthermore, in an ever-changing economy, access to technical education and training will continue to be important to both Georgians preparing and adjusting to the economy and employers deciding whether to remain in, or locate into, the state.

In prioritizing access to Pre-K and technical colleges, policymakers could focus HOPE scholarships on those with a limited ability to pay to ensure the math works. Policymakers could institute an income cap similar to the original cap, or a sliding scale of coverage, as demonstrated below:

Figure 2: Tuition coverage, by adjusted gross income

| HOPE Award | \$0 to \$40,000 | \$40,001 to \$60,000 | \$60,001 to \$80,000 | \$80,001 to \$100,000 | \$100,001 or more |
|------------------|-----------------|----------------------|----------------------|-----------------------|-------------------|
| Tuition Coverage | 100% | 90% | 90% | 90% | 0% |

The governor’s plan takes a sensible balance of making cuts and seeking additional revenues. However, we could go further on the side of revenue. Amongst the ten largest states with lottery games -- Georgia has the fourth largest -- Georgia ranks near the very bottom in percentage of lottery revenue allocated toward public initiatives. Increasing lottery revenue that is allocated to the HOPE program by two percentage points would generate an additional \$43 million.⁷ When combined with the governor’s proposal to decrease the commission paid to lottery retailers, a total of \$112 million in additional revenue would be created.

What ultimately results from efforts to reform the HOPE program and Pre-K will have important implications for Georgia’s Pre-K through higher education pipeline, as well as the broader state economy. Will higher education be accessible to Georgia students regardless of family income? Will youth in Georgia enter school with the critical social and cognitive skills necessary to learn? Will the state possess the range of human capital necessary to attract and retain businesses in a competitive environment? These are underlying questions that should be a part of the discussion regarding how we invest limited lottery revenue.

Finally, policy discussion should extend beyond debate regarding the allocation of lottery revenue and consider the state’s shrinking investment to education in recent years. Since FY 2009, state funding for higher education has experienced significant cuts, with proposed state allocations per full time equivalent in FY 2012 falling to the lowest level in over a decade. While enrollment in the University System of Georgia has increased by more than 41,000 students since FY 2009, proposed state spending will be 23.7 percent below FY 2009 levels in FY 2012.⁸ Given these realities, how much does Georgia want to invest in higher education opportunities?

© 2011 Georgia Budget & Policy Institute

All Rights Reserved.

This document may be quoted with proper citation. A PDF is available for reference and dissemination at GBPI.org.

Contact: Cedric Johnson, cjohnson@gbpi.org, 404.420.1324

¹ Students earning a college preparatory diploma must have a 3.0 grade point average and students earning other diploma types must have a 3.2 grade point average. Also, eligible students from home study programs also qualify for HOPE awards.

² Governor's FY 2012 proposed budget

³ Estimates are from the Office of the Governor, February 22, 2011, unless otherwise noted.

⁴ Based on HOPE data provided by the Georgia Department of Audits and Accounts.

⁵ GBPI estimate based on original FY 2011 budget, \$54 million proposed cut to Pre-K, and current Pre-K slots for FY 2011.

⁶ Georgia's Pre-K program currently has a waiting list of over 9,000 youth. Accordingly, the governor's plan would reduce the current waiting list to around 4,000 youth.

⁷ Estimated based on Georgia Lottery Corporation FY 2010 annual report.

⁸ Enrollment reports, FY2001-FY2011; University System of Georgia; Fall FTE enrollment taken for each fiscal year.