A REVIEW OF THE USE OF THE FUTURE FUND FOR THE MICKELSON SCHOLARS PROGRAM AND DISCUSSION OF MERIT-BASED SCHOLARSHIPS

There is hereby created in the state treasury a special revenue fund to be known as the employer's investment in South Dakota's future fund. Such fund shall be used for purposes related to research and economic development for the state. Expenditures from such fund are subject to the provisions of chapters 4-7, 4-8A and 4-8B.

--South Dakota Codified Law 61-5-24.2 (1987 Session Law, ch 387, § 6)

There is established the Mickelson Scholars Program to be administered by the Board of Regents, which is hereby authorized to establish such policies and procedures as it deems necessary to carry out the purposes of this program. However, the Board of Regents may not award any Mickelson scholarships to any student who graduates from high school after spring 1995. The purpose of the program is to encourage South Dakota's most academically accomplished high school graduates to remain in the state and to contribute to the economic development of the state.


Introduction

Few programs funded by the Legislature see as dramatic a history as the Mickelson Scholars Program. This program went from its debut as a discretionary executive grant, to strong support by the Legislature, to sunset in just six years. The Mickelson Scholars program’s demise is most illustrative of how a program can be killed through a removal of key funding by a persuasive reinterpretation of one statute.

Origin of the Future Fund and a Synopsis of Its History

The Future Fund, officially known as the Employer’s Investment in South Dakota’s Future Fund, was created by the Legislature in 1987 at the recommendation of the late Governor George S. Mickelson. As he expressed in his State of the State Address that year to the Legislature, the fund was a crucial part of his vision of economic development of South Dakota. It was to be “an investment in South Dakota’s future...for long-term investments [and] for building the infrastructure [emphasis added].” Mickelson emphasized the political risks of, but also the need for, long-term investments. “[T]oo often politicians are attracted to short-term programs so that by the next election they might be able to point back and look at benefits or look at results. The courageous politicians are people who are willing to look at the long-term and make a long-term investment in what we believe is right.”
Since 1987, the Legislature has indirectly authorized the expenditure of millions of dollars in grants from the Future Fund to South Dakota universities, colleges, and the technical institutes for research, scholarships, and equipment needs. The Legislature has likewise indirectly authorized millions of dollars in grants from the Future Fund to companies for special projects and training. The Legislature has never successfully written a direct appropriation from the Future Fund. The Legislature has always treated the Future Fund as discretionary to and solely for use by the Governor and his Office of Economic Development (GOED).

Future Fund revenue has grown to almost $7 million per year, including earnings on the fund. The source of this money is a statutory “investment fee” imposed on employers who are required to pay unemployment compensation trust fund contributions (§61-5-24.1). The Future Fund had a balance of $15.3 million at the end of FY 98. If the Governor’s Office of Economic Development’s expenditure projections for FY 99 are accurate, the fund’s ending balance for FY99 should be approximately $14.2 million. (State accounting system records show a Pooled Fund Cash Balance of $17.7 million for the end of May 1999, as of June 3.)

**Origin of the Mickelson Scholars Program and a Synopsis of Its History**

The Mickelson Scholars Program was known as the Rushmore Scholars Program when the late Governor Mickelson proposed it in early 1993. He funded it with a grant to the Board of Regents from the Future Fund and scholarships were first distributed in FY 94. The scholarships were renamed in his honor after his death in 1993. The program’s purpose in the beginning and up until its closure was to encourage the academically top graduates of South Dakota high schools to remain in South Dakota for their postsecondary education. Mickelson was alarmed at what South Dakota higher education and economic development experts call “the Brain Drain” and was sincerely attempting to do something about it, as he stated in his 1987 State of the State Address:

We had 54 National Merit Scholar semi-finalists in this state last year. We had 49 finalists. I think we had 6 [who] stayed in the state of South Dakota. And the reason for that, in many instances, is because other states can outbid us and what we are able to do to keep those brightest and best here.

Governor Mickelson’s idea was to offer full scholarships to the academically top one percent of the graduating seniors of South Dakota high schools if they would choose to attend either a state-supported university or one of the four technical institutes. The scholarships were based entirely upon merit and were only available to high school graduates of the 1993, 1994, and 1995 classes. The Mickelson Scholars program was only funded six times, from FYs 94 to 99, inclusive.

The Legislature enacted just four special appropriation bills to fund the scholarships, in 1995, 1996, 1997, and 1998, but with strong margins. Only in 1995 did the bill receive “No” votes in both houses, but that was the year of “Property Tax Reform,” and there was a full legislative plate. There was much pressure to put every available general fund dollar toward the one big idea and scholarships struggled. The bill that ultimately passed, House Bill (HB) 1325, was a rather omnibus scholarship funding bill, with the “No” votes likely having been for one of the bill’s components. In 1996 there were 12 “No” votes in the House and none in the Senate on Senate Bill (SB) 286. In 1997 there were just six “No” votes in the House on HB 1045 and none in the Senate. The same was true for SB 241 in 1998. There were no state-funded grant programs either started or reinstated in 1999. South
Dakota now has no state-funded program of student grants or scholarships based either on merit or financial need.

The Use of the Future Fund for Scholarships

The funding for the Mickelson Scholars Program for FYs 94 and 95 was from the Future Fund. According to an agreement signed by the Executive Director of the Board of Regents and the Commissioner of GOED on February 16, 1993, the plan called for more. In fact, GOED was “to manage the Future Fund in a fashion so that funds [would] be available to support each cohort of recipients selected from among a high school graduating class through four years of study.”(See Attachment A.) Governor Mickelson’s death in April of 1993 meant that the first of those 2 budget years was “his,” the latter was Governor Walt Miller’s. Governor Miller apparently thought it appropriate to recommend and use the Future Fund for scholarships, just as his predecessor did. Thus, the first two governors to spend Future Fund money used it for scholarships.5

Governor Janklow reversed the stance of his two predecessors very soon after his election and by February of the 1995 Legislative Session had already announced the Mickelson Scholars would not be funded from the Future Fund. He suggested no other funding source. Initial press accounts6 of the Governor’s change in funding policy stressed the Future Fund’s purpose as being for research and economic development. A slightly later account, though, implies fear that the Mickelson Scholarships would use too much of the Future Fund’s annual revenue.7 The Governor’s projections at the time suggested $4 million in annual revenue to the Future Fund, and the Mickelson Scholarships “would soon take 25 percent of it.” The Future Fund’s FY95 revenue was $4.9 million and has averaged approximately $6 million every year since.

Governor Janklow’s FY 96 Budget Recommendation included no funding for scholarships or the other student grant programs in operation at the time. House Bill 1325, an amended bill passed on the last day of the main run of that year’s session, provided funding for the Mickelson Scholars and a number of grant programs from the general fund.

For FYs 97 to 99, the final years of the program, the Governor’s Budget Recommendations funded the Mickelson Scholars program but with general fund dollars. Governor Janklow’s decision not to recommend Future Fund dollars for scholarships was not the result of any lawsuit or Attorney General’s Opinion, but the Legislature has complied with the recommended change in the funding source each year.

SDCL §61-5-24.2 restricts the Future Fund’s uses to “purposes related to research and economic development for the state” (emphasis added), though “research” and “economic development” are not defined in statute. This legislative omission opened the door for the possibility for a statutory interpretation barring the use of the Future Fund for postsecondary education scholarships.

Yet another argument the Governor has used against using Future Fund dollars for Mickelson Scholars pertains to one-time revenue and ongoing programs. Governor Janklow wrote that the Future Fund is one-time money, despite the statutory institution of the “investment fee” that fuels it. In his letter explaining his line-item veto of two provisions of the 1996 General Appropriation Act, he said, “This practice [using one-time revenue for ongoing programs] is what created the problems with the Mickelson Scholarships. When the one-time revenue runs out, the state is forced to find funding for the ongoing projects.”
Latter Day Uses of the Future Fund

In 1987 when he was proposing the Future Fund before the Legislature in his State of the State Address, Governor Mickelson praised the economic development role of universities and their research. He mentioned specifically those universities that compose the “Research Triangle” in North Carolina as role models: Duke, North Carolina State University, and the University of North Carolina at Chapel Hill. He cited “strong evidence that scientific research spins off into job development” and asked that the Legislature “be courageous…in creating a pool of money that would be available [for research].” In his 1988 address, he said “promoting economic development in this state…is as much a job of our educational institutions [as it is of those in charge of economic development agencies and tools].” He continued this theme in 1989 when he said, “No more powerful tool exists to expand and diversify our economic base than a substantial commitment to higher education.”

Obviously, it was important to the late Governor’s vision of economic development to entice the state’s top high school scholars to pursue their postsecondary education in South Dakota. There was no overt linkage between those scholars and research, but they had to have been a part of the long-term investment goals Mickelson was stressing. The Legislature, in codifying the Mickelson Scholars program, bought into that economic development role of these students. The “purpose of the program,” according to statute, “is to encourage South Dakota’s most academically accomplished high school graduates to remain in the state and to contribute to the economic development of the state [emphasis added].”

Latter day expenditures from the Future Fund, though, seem to be taking a different direction than those when the fund was new. Expenditures for scholarships that appeared several years after the Future Fund was created are gone. The Governor and his Office of Economic Development have arguably shifted toward shorter-term uses of the money. Where millions of dollars once went to research at the universities, those millions now go to equipment at the technical institutes and “workforce development.” The emphasis has shifted to training and technical institute assistance and equipment.

In his 1995 letter to Mickelson Scholars scholarship recipients, Governor Janklow said that the “prestigious scholarship program is being funded as an investment in South Dakota’s future [emphasis added].” By providing our top students with these prestigious scholarships, we hope to keep [them] in the state, not just for [their] college career, but for [their] professional career after graduation from college.”

Attaching Strings to the Mickelson Scholars Scholarships

Aside from the criteria for eligibility and continued participation as a Mickelson Scholar, there were practically no strings attached to the scholarships. The Legislature has, at times, attached strings to other higher education assistance programs. For example, recipients of assistance to study veterinary medicine at Iowa State University as part of a statutory program (§§ 13-49-20.5 to 20.15) must sign legally-binding contracts guaranteeing that they will practice in South Dakota one year for each year they receive assistance or face financial penalties. The same was true of assistance programs for medical students. As stated above, Governor Janklow mentioned the program’s intention and his hope that these scholars stay in South Dakota after graduation.

In testifying against reinstating the Mickelson Scholars or starting up a new
program, the Bureau of Finance and Management testified that the program had not demonstrated favorable results. The commissioner cited some statistics gathered by the Board of Regents on the Mickelson Scholars to make his case. According to the Board, a total of 142 students from the three eligible high school graduation classes accepted scholarships. Of those, 57 earned their postsecondary degrees. Fewer than half (25) of these college graduates are in postgraduate programs, with just over half of these going to graduate schools out of state. Thus, there are 16 graduates, of the 57, who are working in jobs out of state. Of the program’s total 142 participants, 30 (less than 25%) have graduated college and left the state for postgraduate study or to work. No one knows what any of these graduates’ plans are as far as returning to South Dakota to work.

Yet, even if those numbers are alarming to anyone, no one on either side of the Mickelson Scholars issue has officially proposed what might have gone a long way to keeping the program alive. None of the three Governors who signed appropriation bills that funded the program, or any member of the Legislature, or anyone from the higher education community offered to tie the scholarships to staying in South Dakota after graduation. The scholarships were also awarded regardless of recipients’ financial need, another criterion not publicly reconsidered. There has also never been discussion of opening up the scholarships to a wider group of high school graduates or scaling back the award amounts. From the beginning until its end, the program was always true to the “Full Ride for the Top one-percent” theme.

Other States’ Efforts

Comparing efforts among the various states is definitely an exercise in comparing apples and oranges. According to the National Conference of State Legislatures, at least a dozen states are either considering or have just enacted scholarship programs or tax incentives aimed at keeping their high-achieving students in state. The only thing the states’ efforts have in common is their desire to capture those students someone once deemed the “best and brightest.” The basic criterion of all the programs is based on some measure of academic achievement.

By far the leader in this area is Georgia where a program funded entirely by the state lottery pays free tuition to any Georgia high school graduate who earned at least a B-average if the student goes to one of Georgia’s colleges or universities. That program has provided free tuition to literally tens of thousands of Georgia high school graduates. Known as the HOPE Scholarships program, Georgia’s effort runs a price tag of some $200 million per year, but “has been credited with not only keeping thousands of solid students from leaving the state, but also with raising college-going rates and spurring high-school students to study harder.”

Nebraska Governor E. Benjamin Nelson last year proposed a program that incorporated his state’s economic development needs. His bill, according to education advisor Shari L. Knoerzer, was aimed “at the long term, at getting students to focus on their careers in Nebraska.” Nelson’s program would provide scholarships for up to half the cost of tuition and fees at any accredited private or public college in Nebraska. Recipients “would be required, however, to earn degrees in any of 12 high-demand fields…and to promise to work in the state for at least three years after graduating.”

Evaluating the Programs

Other states, though, also have their critics of these programs, just as South Dakota does. Some experts contend the states are just throwing money at a falsely perceived problem or giving money to students who do
not need it. Other experts counter, though, with contentions that disproportionately large shares of their states’ best students, say those with the highest ACT scores, leave their states and few enter. University faculty and officials and other higher education experts praise the benefits of recruiting and retaining academically accomplished students. Some states even fund programs to recruit non-resident students in hopes that they will stay and work in the state where they went to college. On the other hand, a controversial and derided New Jersey study shows there is no financial effect if those students leave the state (of New Jersey).

Interestingly, universities have long used athletic scholarships that do not take into account financial need, though those scholarships are not state-funded. Now that states are competing for academic talent with offers of scholarships, or even just trying to keep their smartest students at home, there is much hue and cry.

Perhaps the most serious problems with scholarship programs arise when there are no caps on the number of participants eligible and no financial need criteria. Without a good estimate or stopping point, a state could practically be writing a blank check it might not be able to support. The Mickelson Scholarships, however, were limited to a small number of students, that top one percent, and not all of those eligible for the scholarships accepted them. The program would not have grown significantly beyond its highest appropriated amount, the $823,200 in FY 96, the only year when there were four college classes participating.

One of the leading measures of states’ enrollment efforts and student migration is based upon information gathered every other year by the United States Department of Education. The most recent U.S. Department of Education data shows South Dakota first-time college freshmen leave the state for college, but only 18.3 percent and 9.9 percent leave Minnesota and Iowa, respectively.

On one thing supporters and opponents of the programs both agree, and that is that there is a scarcity of data and valid studies on the effects of “brain drains.” This just makes the debates more complicated. Even the Department of Education data is at least controversial, if not flawed, in that it does not consider the academic records of the students tracked. Neither the Board of Regents nor any other entity has gathered enough empirical data on the Mickelson Scholars Program or on the other scholarships and grants to be of use beyond making hunches and assumptions.

No one or organization has yet launched an effective, comprehensive tracking system of high school graduates once they leave high school. While there are certain tactics that can be used to gather data, e.g. tracking driver’s license numbers of high school graduates over a number of years, there are confidentiality concerns with getting any more specific gathering data from an unwitting population. Besides, there also need to be surveys of motivational and other factors to get a true picture of why graduates leave their home states. This information could only be gathered voluntarily from students. Such a gathering would involve considerable cost and effort if a sufficient enough amount of data could be gathered for it to have validity.

Conclusion

Where South Dakota was once on the cutting edge of a higher education movement to retain academic achievers by offering scholarships to stay in state for their postsecondary education, it now has nothing, at least no state-funded program. The Mickelson Scholars program essentially lost its innovative Future Fund support because of one persuasive argument; it was
an argument not supported by any court ruling or even an Attorney General Opinion. Supporters of the program had to resort to the general fund for the scholarships, and they were met with little or no encouragement from an administration that wanted to use all available general fund dollars for purposes other than higher education scholarships and grants. At the Governor’s urging the Mickelson Scholars program soon came to an end.
NOTES

1 The Legislature appropriates Other Fund expenditure authority to the Governor’s Office of Economic Development each year in the General Appropriation Act. Some of that authority is for grants from the Future Fund. When the Legislature is appropriating the authority, it does not know the specific uses, amounts, or recipients of grants from the Future Fund. The Governor and his Office of Economic Development have discretionary power to distribute the millions of dollars in the Future Fund.


3 Appropriations Committee Budget Presentation, 1/14/99.

4 The 1995 Session Law that created the Mickelson Scholars Program in statute closed the program to high school graduates after the Class of 1995.

5 According to GOED condition statements for the Future Fund, more than $1.2 million was spent for Mickelson Scholars scholarships in FYs 94 and 95.

6 SIOUX FALLS ARGUS LEADER, February 16, 1995, p. 1A.

7 SIOUX FALLS ARGUS LEADER, February 19, p. 4D.

8 The Bureau of Finance and Management testified against 1997 Senate Bill 233 which would have reinstated the Mickelson Scholars program with Future Fund support. In 1999, the Bureau opposed House Bill 1124, a bill which would have renamed the program the Governors Scholars program and used the Future Fund and institutional matches for funding.


10 Ibid.

11 SIOUX FALLS ARGUS LEADER, May 23, 1999, p. 10C.
AGREEMENT BETWEEN
THE SOUTH DAKOTA BOARD OF REGENTS
AND
THE GOVERNOR'S OFFICE OF ECONOMIC DEVELOPMENT
RELATING TO THE ESTABLISHMENT OF
THE GOVERNOR'S RUSHMORE SCHOLARS PROGRAM

The Rushmore Scholars Program is to be administered by the South Dakota Board of Regents, hereafter, "the Board," with funds provided through the Governor's Office of Economic Development, hereafter, "GOED," from the Employer's Investment in South Dakota's Future Fund provided for in South Dakota Codified Laws (SDCL) § 61-6-24.2.

The Rushmore Scholars Program will provide full tuition, required fee, special discipline fee, room and board support for four years of baccalaureate education. Eligibility for the award will be limited to resident students who comprise the top one percent of the students graduated from South Dakota high schools and who enroll in one of the institutions of higher education controlled by the South Dakota Board of Regents or in a vocational technical institution established pursuant to SDCL chapter 13-39.

The support provided through the Rushmore Scholars Program for any student, when aggregated with other publicly funded grants or scholarships, whether state or federal, may not exceed the estimated cost of attendance at the institution of enrollment. The Board will determine the size of the awards extended to each individual under the program.

The Board will determine the criteria used to select Rushmore Scholars and will select the recipients. It will determine whether students continue to meet academic and enrollment eligibility requirements for the award.

Awards will lapse if not claimed, if students fail to meet academic eligibility standards or if students fail to maintain continuous enrollment. Monies supporting awards that lapse will be returned to GOED for re-deposit in the Future Fund.

In order to initiate the Governor's Rushmore Scholars Program by providing for the necessary funding, the Board and GOED agree as follows:

1. The intent of the funding is to support Rushmore Scholars through four years of baccalaureate study. Therefore,
   a. GOED undertakes to manage the Future Fund in a fashion so that funds will be available to support each cohort of recipients selected from among a high school graduating class through four years of study. (Hereafter, such groups of recipients are designated as cohorts.)
   b. The Board agrees to provide GOED notice of tuition and fee increases at the time that these become finalized. The Board will provide GOED with projections for future tuition and fee requirements.
c. The Board will finalize awards based upon enrollment and financial aid data available as of July 15. It will notify GOED of the sums needed to support the cohort of Rushmore Scholars who will enroll for the first time during the following fall semester.

2. GOED will transfer funds needed to support all students participating in the program, regardless of cohort, on a per semester basis. Transfers will be made on August 1 and on January 1.

3. The Board will advertise the program as providing the stipulated assistance for a full four-year baccalaureate program, and it will include such an undertaking on behalf of GOED in the award documents issued by the Governor.

4. Commencing in 1993, and in each succeeding year, the Board will notify GOED by July 15 of the estimated number of students in the following year's graduating class and the estimated cost of tuition, fees, room and board for the following year's cohort for four years of attendance. The estimate will be based upon the number of third year students in the preceding year's high school census. GOED, through available Future Fund monies, will support the cohort as agreed over the four year period or to notify the Board by September 1 that the program has been curtailed or terminated. Such notice will not affect support commitments for students in prior cohorts.

5. GOED agrees to provide funds necessary to support eighty students from the class of 1993 (the 1993 cohort) on the following schedule:

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY1994</td>
<td>$360,000</td>
</tr>
<tr>
<td>FY1995</td>
<td>$378,000</td>
</tr>
<tr>
<td>FY1996</td>
<td>$396,900</td>
</tr>
<tr>
<td>FY1997</td>
<td>$426,745</td>
</tr>
<tr>
<td>Total</td>
<td>$1,551,645</td>
</tr>
</tbody>
</table>

Consistently with the foregoing, the actual sums required may fluctuate from those projected, depending upon actual enrollment and tuition and fee increases.

The parties have authorized the execution of this agreement by their duly appointed representatives to confirm the undertakings contained therein and to initiate the implementation of the program.

By: [Signature]
Howell W. Todd
Executive Director
South Dakota Board of Regents

By: [Signature]
Roland Dolly
Commissioner
Governor's Office of Economic Development

Date: February 15, 1993

Page 2 of 2

ATTACHMENT A CONTINUED
February 18, 1993

Dear *Salutation*:

Congratulations! Based on your PSAT/SAT or ACT standardized test score, it has been determined you are in the top 1% of the state's 1993 high school graduating class. As one of the state's top graduates, you are eligible to receive one of the prestigious new Rushmore Scholars Program awards, which will provide financial support for tuition, fees, and room and board for up to four years at one of the state's public universities or vocational/technical institutions.

This prestigious new scholarship program is being funded through the Employers Investment in South Dakota's Future Fund as a mechanism to stimulate further economic development in South Dakota. By providing our top students with these prestigious scholarships, we hope to keep them in the state, not just for their college career, but for their professional career after graduation from college. As one of South Dakota's best and brightest students, we hope you will be one of the creative minds that plays a key role in the future growth of this great state. While you are not obligated to remain in the state following graduation, it is our sincere hope you will want to remain here to help shape the state's future.

The Board of Regents has been designated the state agency to implement the program. Part of the board's responsibility in implementing this program will be to track students throughout their college career and, following graduation, to identify the number of scholars who remain in the state and the kinds of activities they are involved in professionally. Given this important aspect of the program, we would ask that you cooperate with the board by continuing to make sure they have your current address and by participating in occasional surveys and questionnaires which will provide important management information regarding the program. Please begin this process by completing and returning the enclosed postcard. You may not have made any final decisions regarding your college career, but your answers to these questions will provide us with important information for management of this major new scholarship program.
A copy of the Board of Regents' policy describing the program is enclosed to provide you additional information about the scholarship. Please note the requirements are to maintain continuous enrollment at one of the designated institutions and to maintain a 3.0 cumulative grade point average to retain eligibility for the scholarship. Requirements for transferring between institutions and other important information regarding the program can be found in the policy.

You should also note the total award you receive from Fell Grants, Superior Scholar Scholarships, and Rushmore Scholar Scholarships may not exceed the total cost of attendance as determined by the director of financial aid at the institution you select. Therefore, either the Superior Scholar award or the Rushmore Scholar award will be reduced to maintain a total award amount from the three programs that equals the estimated cost of attendance.

You do not need to complete an application form specifically for the Rushmore Scholars Program. You will, however, need to complete the application process at one of the designated universities or vocational/technical institutes. A single page, listing important names and addresses at the designated institutions, is enclosed for your information. All of these institutions have been notified of your designation as a Rushmore Scholar; therefore, you will only need to indicate this status to them as part of your application process. By July 1, we will ask you to make a final decision on your participation in the Rushmore Scholars Program. You will receive additional materials well before this date. If you have any questions, please contact Dr. Michel Hillman, Director, Academic Affairs, Board of Regents, at 773-3455.

Again, congratulations and good luck in your college career. We sincerely hope you will become one of the outstanding leaders of South Dakota's future.

Very truly yours,

GEORGE S. MICKELSON

GSM:htl

Enclosures
This issue memorandum was written by Mark Zickruck, Principal Fiscal Analyst for the Legislative Research Council. It is designed to supply background information on the subject and is not a policy statement made by the Legislative Research Council.