The Legal Authority and Fiduciary Responsibility of the Board of Governors:

Steps Toward an Accord on Governance and Funding

Mark B. Rosenberg
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This draft paper is intended to inform discussion, debate, and actions taken by the Board of Governors at the July 10, 2007 special meeting of the Board in Orlando, Florida.
Introduction

In the seven most educated industrialized nations, 55% of adults 25 and older have an associate or bachelor degree. In Florida that percentage is 37%. By 2025, if Florida is to compete globally with other states and nations that are investing heavily in education, we will need to have 10 million adults with postsecondary credentials—twice as many as we have now and 3 million more than we will have if our current attainment rates persist.

As the most important economic development assets in the state, Florida’s eleven public universities could contribute enormously to a goal of doubling our population of educated workers. Such an effort would require careful investment, and relentless focus on efficiency to reduce unnecessary costs and improve retention and completion rates. Instead, however, in the current circumstances, our system is on the brink of losing any realistic hope of competing in the global marketplace.

As Florida moves through the 21st Century and the broader economy evolves to value a more highly educated workforce, support for higher education must be focused on students and graduates, and it must be economically strategic. For too long, many of our leaders, often with the best of intentions, have pretended that high quality, broad access, and successful degree completion are possible on a shoestring budget.

Our students deserve the best we can offer. They are not getting it.

Their future and the future of our universities cannot continue to rely on the political process for resolving differences. The Board of Governors was created, in part, to protect the university system from shortsighted policies with long-term consequences. It is such short-term thinking, for example, that generated enormous student demand for universities without building the capacity to accommodate them. As a result, Florida now has the highest student-faculty ratios in the country, and the university system is at a critical inflection point.

We have a unique opportunity that may not last. If we do not act now, the critical higher education planning process in which we are currently engaged—Forward by Design—will be eviscerated by continuing power struggles and unsustainable budget gaps. Any plan that emerges will be dead on arrival.

Fortunately, our new Governor is passionate about doing what’s right for Florida’s citizens and wants to work with us to reach an accord that will best serve their interests. As a first step, he has demonstrated foresight and courage by agreeing to a new direction for tuition policy in the state. Legislative leaders, on their part, understand the importance of a dynamic university system to the state’s economy and the fiscal
constraints that have been holding us back. In order for the Board to fully exercise its authority, there must be direct high-level discussions with these leaders to agree on broad policy parameters for university governance and funding that will address access, quality, and affordability.

Such an accord must grow from a business plan developed by the Board of Governors and must take into account the broader needs of the citizens of the state, as well as the mission of the State University System and the individual universities. We should keep in mind that, just as the Governor’s and the Legislature’s authority is outlined in the Florida Constitution, the Board of Governors’ authority and responsibility come not from statute, rule, or executive order, but from that same Constitution, as amended by a vote of the citizens in 2002.

Purpose of debate and discussion

For a successful agreement on university funding and governance, there must be vigorous discussion based on what we know about student enrollment, graduation rates, documented needs for each university, the historical funding perspective, and the state’s ability to invest in the university system.

Three sets of questions must be answered to inform any decisions that the Board will make:

1. **Fiduciary Responsibilities and Governance** — What authority does the constitution give the Board of Governors, and what fiduciary responsibilities come with that authority? What steps must be taken to cement the Board’s constitutional authority?

2. **Funding** — How has the level of funding in the State University System changed over time, how does it compare to peers/competitors, and what factors will impact the availability of resources in the future?

3. **Leadership Accord** — How can an understanding with the state’s political leadership be reached to stabilize the fiscal and legal foundations of the State University System?
I. Fiduciary Responsibilities and Governance

If the Board is to carry out its fiduciary responsibilities, it can only do so once there has been a determination as to its scope of authority. There are legal and political dimensions to this issue.

The Legal Dimensions

The legal component of this discussion regarding university governance and funding pivots around the scope of the Board’s constitutional authority to operate the State University System.

Despite the Board’s efforts to resolve this situation through informal negotiations and despite its deliberate strategy of cooperation and partnership, the Board may need a decision that has the full weight of the legal process and binds all parties to entirely settle the question of the Board’s legal authority. If the Board’s creation was intended to provide a counterweight to other political forces in the state, it may be inappropriate to defer to those same forces in exercising the Board’s constitutional powers.

The central legal questions that must be answered include:

1. Under what circumstances does any party other than the Board of Governors have the authority to give direction to university boards of trustees?
2. Which statutes (as amended upon passage of SB 1270 in 2007) legally bind the Board of Governors and which do not?
3. Where does the Legislature’s fiscal control begin and end? Does the Legislature’s authority to appropriate funds extend to tuition and/or fees? Is there a point at which conditions placed on appropriations become an infringement on the Board’s constitutional authority?

Because the constitutional authority of the Board of Governors is recognized in several places in statute, some members of the Legislature believe this provides adequate acknowledgement of the Board’s authority and does not diminish or change the Board’s powers and duties.

Florida’s Legislature is unusual among the 50 states, and perhaps unique among those with statewide governing boards in their constitutions, in asserting that its powers of appropriation extend to tuition and fees. Is it really plausible that, in establishing a Board designed to limit the Legislature’s powers over the universities, voters intended to exempt the Board’s authority to set tuition and fees from the amendment?

Nevertheless, in the 2005 legislative session, HB 1001 provided that the Legislature has legal authority to set tuition, an assertion that is not shared by members of the Board or
by the framers of Amendment 11. The fundamental question is whether the court views tuition as state funding that is properly appropriated by the Legislature or as non-state funding not subject to the Legislature’s appropriations power. If the court gives full effect to the intent of the framers to pattern Florida’s public university governance structure after states like Michigan, Minnesota, and California, which are constitutionally autonomous and have full authority over tuition and fees, then the court will decide that the Board of Governors has control over the setting of tuition and fees.

A related question concerns the conditions that may be placed on appropriations through proviso language or other mechanisms. Currently, much more guidance is provided in appropriations to the university system than is found in the budgets of many states—even those that do not have constitutional boards—or, for that matter, in Florida’s appropriations to agencies such as the Public Service Commission, the judiciary, the Attorney General, or the Department of Agriculture.

No one would argue that the Legislature cannot raise or lower the amount of funding provided to the university system. But could it, for example, make each university’s entire appropriation conditional upon compliance with a set of conditions that paralleled Florida Statutes prior to the creation of the Board of Governors?

**The Political Dimensions**

Reliance on the political process to resolve differences also puts too much at risk for our public universities. It places them squarely in the midst of political forces that can unintentionally undermine long-term planning and financial solvency.

Although separate from but impacted by the legal component, the political component raises two questions:

1. What political factors have an impact on how the Board of Governors exercises its overall constitutional authority?
2. What is the Board’s ability or willingness to exercise “full control” over the university boards of trustees and the universities?

In the last 20 years, higher education has tended to be last in line for new state funding and first in line for cuts. Medicaid, law enforcement, and public schools have taken priority in the annual budget process. The practical effect during the last decade has been “yo-yo” financial management – every year, citizens of the state and university administrators play a guessing game to determine program and course availability and to determine annual tuition charges. The end result has been insufficiency in meeting state needs for access and quality. Florida now ranks nearly dead last nationally in
student/faculty ratios.

Even if the court clarifies the scope of the Board’s authority to operate the university system, full realization of that authority and its effectiveness will require the cooperation of and collaboration with the Legislature and Governor. The Constitution clearly states that the authority of the Board is subject to the appropriations authority of the Legislature. This reliance on legislative action requires there to be an agreed-upon set of goals (vision) for the state’s public universities. The challenge is to get entities with different and sometimes competing constitutional responsibilities to arrive at an acceptable means of providing and funding a high-quality system of public universities.

The Board always will have to wrestle with determining the acceptable tradeoffs between and among access, affordability, and quality. Under the best of circumstances, the financial resources of the state limit the ability of the state universities to fulfill their missions. Given any level of funding, the number of students that can be educated is determined in large measure by policy decisions wholly within the purview of the Board. The Board’s decisions about the level of quality provided to students may have an inverse relationship to the number of students that it can educate, given a specific level of funding.

In public university systems such as in California, Minnesota, and Michigan, where there are constitutional boards, there is an understanding that boards do not have unfettered discretion to operate unimpeded by external constraints such as funding. Boards have developed understandings with other constitutional bodies to ensure cooperation, communication, and accountability, particularly regarding the use of public funds appropriated by their respective legislatures. Prospects for such an understanding in Florida are high given the collaborative intent that the Board already has developed with regard to both the executive and legislative branches of government. A Board agreement with the Legislature and the Governor about criteria to be used in any funding decisions and the value of those criteria is essential to establishing a rational planning and decision-making environment.

In summary, it is the Board that has the fiduciary responsibility for quality and access to the university system. However, under present circumstances, its authority is mediated by its lack of control over tuition and fees, and by ambiguity that has been generated by statutory reference to boards of trustees. A Supreme Court determination would be pivotal to clarifying responsibilities and duties in the development of the public university system.
II. Funding

During the last decade, the SUS has attempted to keep the promise to Floridians of access to higher education. Funding, however, has not kept pace with inflation and enrollment growth. As a result, funding per student has declined, and Florida now has one of the worst student/faculty ratios in the United States. Despite its global ambitions, Florida is losing ground even in its own region of the United States.

Florida’s growth and development in the last decade has been extraordinary by U.S. standards. The Milken Institute has consistently identified numerous Florida metro areas that are in the top 30 nationally for their economic performance and their ability to create, as well as keep, the greatest number of jobs in the nation. Florida’s boom has been accompanied by aggressive goals to raise the quality of elementary and secondary education and to provide access to higher education for the growing army of high school graduates.

Indeed, during the last 6 years, public university enrollment has grown by more than 55,000 students.

- University enrollments at four of our public institutions have ballooned to more than 40,000 students each, raising issues about the limits to their carrying capacity.
- In southwest Florida, the public university there has exceeded its growth expectations.

As Table 1 (below) illustrates, there has been a large gap in funding for student enrollment in the university system for almost every year during this decade. These shortfalls took place after substantial budget cuts in prior years, at a time when a better state revenue picture could have helped to restore per-student funding levels.
Table 1.

<table>
<thead>
<tr>
<th>Year</th>
<th>FTE Req'd</th>
<th>Funds Req'd</th>
<th>FTE Funded</th>
<th>Amt Funded</th>
<th>FTE Diff</th>
<th>Funded Diff</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$</td>
<td>$</td>
<td>$</td>
<td>$</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2004-05</td>
<td>11,496</td>
<td>82,195,286</td>
<td>11,496</td>
<td>61,463,283</td>
<td>0</td>
<td>(20,732,003)</td>
</tr>
<tr>
<td>2005-06</td>
<td>7,316</td>
<td>81,042,093</td>
<td>7,316</td>
<td>43,818,232</td>
<td>0</td>
<td>(37,223,861)</td>
</tr>
<tr>
<td>2006-07</td>
<td>7,448</td>
<td>71,786,298</td>
<td>7,448</td>
<td>54,480,924</td>
<td>0</td>
<td>(17,305,374)</td>
</tr>
<tr>
<td>2007-08</td>
<td>10,585</td>
<td>112,213,453</td>
<td>4,958</td>
<td>42,060,536</td>
<td>(5,627)</td>
<td>(70,152,917)</td>
</tr>
<tr>
<td>TOTAL</td>
<td>36,845</td>
<td>347,237,130</td>
<td>31,218</td>
<td>201,822,975</td>
<td>(5,627)</td>
<td>(145,414,155)</td>
</tr>
</tbody>
</table>

*Old legislative funded model was based on expenditure analysis.

**Amount BOG requested in LBR. Legislature did not fund over-enrollment.

How did we get here?

We have not presented our budget situation as effectively as we should. We have allowed what appeared to be increases in funding for the system obscure the fact that per student funding, adjusted for the effects of inflation on universities’ purchasing power, has actually declined substantially. In good years, increases in the state budget have done little more than keep up with inflation and enrollment growth. In poor years, we have not even done that.

State University System funding from general revenue, tuition, and lottery funds peaked in 1989-90 at more than $14,000 per FTE student in 2005-06 dollars. At the time, there were 19 FTE students per tenured/tenure-track faculty.

By 1997-98, when Bright Futures was introduced, funding per student, including the lottery funding “enhancement,” had declined to $11,700 in today’s dollars. The student-faculty ratio had increased to 23:1.

By 2005-06, total funding per student had dropped to $11,100, and the student-faculty ratio had increased to 28:1 (including part-time tenure-track faculty and FGCU’s multi-year contract faculty). See Figure 1 (below). During this same period, general revenue funds per FTE student dropped from a peak of $11,100 in 1988-89 to $7,000 in 2005-06.
Clearly, the university system has kept its doors open to address access, at the cost of quality, given the precipitous climb in the number of students per faculty.

**How do we compare to other states?**

What is an appropriate level of funding? Money, by itself, is not equivalent to quality, and lower funding levels do not necessarily imply lower quality . . . at least to a point. In any complex, $3 billion+ enterprise, there always will be examples of inefficiency and improvements that can be made to control costs. One of the Board’s responsibilities is to ensure that such controls are in place.

Other boards and other legislatures are also concerned about controlling costs while achieving excellence. Our discussion is not unique, and Florida is not a sovereign country. It competes with other states for the best and brightest faculty, for a limited pool of high-quality graduate students, and for federal research dollars. However, no matter how we look at it, Florida falls behind its national competition in support for public universities.

- Florida’s total funding (including tuition, general revenue, and lottery funds) per FTE student lagged behind the U.S. average for public universities in 2004-05 by 12%.
- Florida ranks 34th nationally in tuition and appropriations per FTE student (this includes funds for IFAS and other non-instructional purposes).
- Florida ranks 41st in instructional expenditures per FTE student, even though more of our instruction is at the upper-division level than in states without a strong
community college system.

- Among states in the South, Florida was 12th out of 16 in total funding per student in 2005-06, down from 7th in 2000-01. See Figure 2 (below).

**Figure 2.**

![Total State Funds and Tuition per Student: Public Four-Year Institutions in Southern States, 2000-01 and 2005-06](image)

Although Florida managed to rank highly in state appropriations among southern states, it was last in tuition revenues. Indeed, Florida’s average in-state undergraduate tuition is the lowest in the entire country and the gap continues to widen. Tuition is so low in Florida that it is the major factor in our overall low ranking in funding per FTE student. Because of its effect on overall funding, low tuition is also at least partly the reason we have the second-highest ratio of students per tenured/tenure-track faculty member in the country in fall 2005 (the highest if you exclude Louisiana post-Hurricane Katrina).

Florida is one of three southern states in which funding per student has declined since 2000-2001, despite the economic boom in the state during this decade. As a result, Arkansas, Alabama, Mississippi, Tennessee, and Texas have surpassed Florida in per-student funding. See figure 3 (below).
Inside the numbers, there is another story – one that bodes ill for the system’s regional competitiveness. During the past few years, there has been a growing recognition in the South that education pays.

Thus, the University of North Carolina system has declared that, to balance access, quality, and affordability, it will limit tuition increases in the next 4 years to 6% annually, as long as the state’s Legislature increases base funding by at least 6%. During the past 2 years, faculty salaries in North Carolina have been raised by nearly 12%. Georgia has raised tuition for the institutions in its system between 6% and 13%. Alabama has raised the base budget of the University of Alabama Birmingham by nearly $100 million in 3 years and raised tuition at that institution by 7% this year. Faculty salaries are also scheduled to be raised by an average of 5%.

These states and Florida compete for the same faculty, so how can Florida stay competitive in this kind of aggressive southern marketplace? Another success story is Clemson, where there has been a concerted effort to raise quality and improve competitiveness. The major revenue driver for this initiative has been tuition, which has increased by more than 50% in the last few years. Once a third-tier university, Clemson has long surpassed Florida State University in the U.S. News rankings and is rapidly gaining on the University of Florida.

Funding per student information of course does not address a major source of student funding—Bright Futures. Nearly 42% of university system students receive support through this scholarship program to underwrite either 100% or 75% of tuition costs, depending on eligibility. The State of Florida invests nearly $300 million a year in scholarship support for university system students, whether they have need or not. This is a great program for students. However, it diverts funding from students who
might have financial need, and of course it reduces the overall availability of funds to underwrite enrollment growth, faculty and staff hiring, and the acquisition of technology and library resources that are critical for a competitive education.

Overhead costs

Every effort must be made to contain costs that do not contribute directly to the university system’s mission. A savings of $1 million in annual overhead costs is the equivalent of a $20 million endowment gift. Over the last several years, much, though not all, of the reduction in revenue per student has been absorbed through reductions in administrative and support costs. Between 2001-02 and 2006-07, inflation-adjusted instruction and research expenditures per full-time equivalent student declined by 5%, while administrative and support expenditures per student went down 13% (see Table 2).

More could have been saved and used for core mission functions if decentralization of the university system prior to the creation of the Board of Governors had not caused millions of dollars and hundreds of positions to be diverted, with little statewide planning or coordination, to financial and human resource functions that had previously been managed at the state level.

<table>
<thead>
<tr>
<th>Change in Expenditures per Full-Time Equivalent Student, 2001-02 to 2006-07</th>
<th>Instruction and research per FTE</th>
<th>Admin and Support per FTE</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001-02</td>
<td>$8,663.36</td>
<td>$1,651.35</td>
</tr>
<tr>
<td>2006-07</td>
<td>$8,220.51</td>
<td>$1,437.08</td>
</tr>
<tr>
<td>5-Year Change</td>
<td>-5.1%</td>
<td>-13.0%</td>
</tr>
</tbody>
</table>

Table 2

While we must continue to look to overhead expenses for potential savings, it is also important to remember that many support expenses serve critical functions on the university campus. Universities are currently understaffed in advising and security areas, for example, and rather than cut overhead, they will actually need to invest more heavily in those functions.
Outcomes and Productivity

For the State University System of Florida, performance counts. We are proud of our commitment to access, and have managed to keep our doors open to qualified students even as funding levels have varied with the fluctuations in Florida’s economy. However, while we have made progress on certain key measures, others are stagnant or declining. While it may be tempting to point the finger elsewhere, the ultimate responsibility for performance must rest squarely with the Board of Governors and the university boards of trustees. Performance deficits must not be glossed over or excused.

- Degrees conferred: in 2006-07, the State University System awarded nearly 65,000 bachelor’s, master’s, doctoral and professional degrees, up from 49,000 degrees just five years earlier. Degrees awarded have grown faster than enrollment, so the state is spending less for every degree awarded than it did five years ago.
- Graduation rates, however, have not progressed quickly enough over the same period: While the SUS six-year graduation rate has risen slightly from 61.5% to 63.7% over five years, the four-year rate has stagnated in the 35% range over the same period. At some institutions, both rates have declined. The average graduate now takes 4.2 years from freshman enrollment to baccalaureate diploma.
- Community College AA transfer graduation rates have actually declined: Since 2000, community college transfer graduation rates have dropped from 70.9% to 70.1%. This is unacceptable in a state committed to a 2+2 system. We must and will do better.

Where are we going?

In the short term, the budget picture does not look good. This fiscal year, minimal enrollment funding, no tuition increase, significant increases in universities’ costs, and potential mid-year cuts in state funding will combine to leave Florida even further behind its southern neighbors, much less the national and international competition.

And it will get worse. The state revenue picture for the next few years is extremely bleak, as a weakening economy and major tax cuts place new pressures on an already lean state budget.
These pressures make it even more essential that structures be in place for the Board to act to preserve and, if possible, advance Florida’s university system even in tight economic times.

| In summary, the Board has attempted to honor the state's promises of access. But there is a real question whether today's students—including many more first generation, women and minority students than ever before—are receiving the same quality that students did a generation ago and that many of the state’s leaders experienced personally. At some point, the Board must recognize the slow motion free-fall in quality of the State University System and exercise its fiduciary responsibility to restore quality for those students already in the university system. |
III. Reaching a Leadership Accord for Florida’s University System

The Board has a fiduciary responsibility to maintain a university system that is accessible, affordable, and of high quality. This goal can be achieved only in partnership with the Governor and the Legislature, who must work together to develop a stable, predictable tuition, funding, and accountability model that provides students with a globally competitive education and provides taxpayers with assurance that the public university system is effective and efficient.

We need a state funding, tuition, and accountability agreement in Florida that will involve principal stakeholders, including, but not limited to the following:

- the Board of Governors, which has the constitutional and fiduciary responsibility to operate the university system in a manner that ensures an appropriate level of access, affordability, and quality to the citizens of Florida;
- the Legislature, which has the authority and responsibility to appropriate sufficient funds;
- the Governor, who has the responsibility to propose a state budget and the authority to veto appropriations; and
- students and their families, who vote with their feet and their pocketbooks – their choices determine where tuition and fee dollars go.

Toward a Working “Accord” or Business Plan

In order for the Board to fully exercise its authority, there must be direct high-level strategy discussions between and among the Board, the Chancellor, legislators, and the Governor to identify and agree on broad policy parameters for university funding that would address access, growth, and affordability. The “accord” among leaders would not be a contract or a set of regulations, but a flexible, easily-understood working document that articulates core principles while recognizing the many variables that cannot be predicted or controlled.

The agreement would grow from a business plan developed by the Board with input and acceptance by all parties that takes into account the broader needs of the citizens of the state, as well as the mission of the university system and the individual universities. Such discussions could lead to a strategic approach to university operation in Florida and increase the likelihood that the people of the state will benefit individually and collectively to the greatest degree possible. It would also eliminate the yo-yo financial management that undermines planning and quality.

These discussions could be conducted in summits every two years outside of the legislative session with legislative leadership, the Governor, and the Board, as is done in some other states. In this venue, there could be open dialogue about the needs of the state and how the university system could help meet those needs. From these summits,
the Board would develop policy and the Governor and legislative leadership would
define funding parameters. In other states, “compacts” or “accords” outline the
respective operational parameters to ensure that each party’s needs are met.

The Board also will need to re-evaluate its delegations of authority to the boards of
trustees as a means to ensure system effectiveness and efficiency. Although local
support and management are critical components of a successful university system,
there must be a more thorough discussion of the local boards’ constitutional
responsibility, not only for their own institutions, but also for the whole university
system.

The university system continually has demonstrated its ability to produce quality
education at bargain-basement prices. During the past few years, it also has shown
resilience in the face of four different governance arrangements, unpredictable finances,
limited faculty and staff salary support, and modest investments in technology to
enable modern computation, telecommunication, and distance education initiatives.
However, in a knowledge-based economy dependent upon high-skill labor, Florida
cannot afford to continue to allow political convenience and low expectations to
determine the direction of higher education in the state. The global economy will not
wait on our state to get its act together.

Other states understand that the business of higher education requires intentional effort
to maintain affordability while expanding access and guaranteeing quality. In Texas,
the state Legislature gave tuition-setting authority to its public institutions in exchange
for the development of operating compacts between each of the institutions and the
state in terms of annual work products. California’s governor has developed a 4-year
“compact” with the research and state universities to fund growth and quality in
exchange for identifiable outputs such as enhanced graduation and retention rates.
Ohio’s governor is negotiating with the state Legislature to increase investment in the
state’s public universities in exchange for low or reduced tuition increases. Again, these
are all intentional initiatives based upon mutual trust, negotiation, and a shared sense
of vision about the contribution that public universities can make to a state’s well-being.

**Forward by Design**

An accord among leaders is one of the basic recommendations the Pappas Consulting
Group included in its February 2007 report and would provide a more solid foundation
for Florida higher education regardless of what action the Board chooses to take with
respect to the report’s other recommendations. One common thread in the feedback
received around the state in response to the Forward by Design initiative is the
expectation that the Board of Governors will be willing and able to take strong action on
behalf of the university system and the citizens of the state.
If the Board wishes to promote the “Accord” concept, other states may have useful models to consider in developing a Florida-specific version. The Board also needs to determine what the key components of an accord might be and the extent to which individual institutional “accords” would figure into the statewide understanding.
Leadership Accord on State University System Access, Quality, Affordability, and Funding

Understanding that fiscal, demographic, and educational conditions are always shifting, leaders in the state could nevertheless agree to a basic funding, tuition, and accountability framework that would provide more predictability over the next five years.

An average annual increase in the core university system budget of 8% annually (more or less, depending on enrollment levels and inflation rates) would allow for modest enrollment growth, inflation in universities’ costs, and incremental improvements in quality and degree production. Combined with improvements in efficiency — both in degree completion and in overhead costs — this plan would significantly improve the quality and quantity of instruction, research and public service the university system provides to the citizens of Florida.

- 6% for maintaining quality and access: Simply in order to keep up with inflation and enrollment growth, the core discretionary budget of the universities, exclusive of special earmarks for projects that are not primarily related to undergraduate instruction (research centers, etc.), should increase at approximately 6% annually, a percentage rate that reflects both inflation in universities’ costs and undergraduate enrollment growth.

  - 4% for estimated average annual inflation in universities’ costs: This is based on the Commonfund’s Higher Education Price Index (over the last several years, it has averaged 3.7% – in 2006, it was 5%). Actual inflation may be more or less, with funding adjusted accordingly. It is critical that annual funding policy not assume that universities’ purchasing power remains the same from year to year. You cannot hire a Ph.D. chemist, buy a kilowatt hour of electricity, or re-roof a building in 2006 for what it cost in 1990. National or global economic conditions dictate these cost increases, which are largely out of individual institutions’ or states’ control.

  - 2% annually for estimated enrollment growth: Actual growth may be more or less. Adjustments would be made in the following year’s budget to reflect actual growth provided it remains below the stipulated maximum agreed upon. Institutions and the state do have substantial control over this factor and, in tight fiscal times, growth could be curtailed or eliminated.

- 2% for enhancing quality: This placeholder would allow for enhancement funds based on the Board’s emerging strategic priorities and master plan, as well as performance funding initiatives.
The funds provided to maintain quality and access, although essential just to maintain the current funding level in constant dollars per student, will do little or nothing to advance the university system from its current position. Over five years, however, a 2% increment in real dollars per student would substantially close the gap between university system funding levels and national public university funding. Reductions in overhead costs over the same period would further enhance funds available for instruction, research, and service.

These enhancement funds could be allocated based on university performance criteria agreed upon by representatives of the four key groups cited above. These would include criteria to evaluate universities’ efforts to contain costs. For instance, a decision could be made that enhancement funds would have to be expended on the priorities of each university’s strategic plan within the following parameters:

- **25 - 50% would have to be used to improve the student-faculty ratio unless that ratio is already in the top quartile of peer institutions;**
- **25 – 50% would have to be used to enhance faculty salaries, unless salaries are already in the top quartile of peer institutions; and**
- **25 – 50% would have to be used to enhance services provided to students in the form of advising, technology, student security and welfare, and/or need-based financial aid.**

**The Source of Needed Funds: Business Plan**

- The total annual increase of 8% per year, or 4% after estimated inflation is taken into account, would be enough to close the gap in funding relative to other states while keeping up with inflation and modest enrollment growth.
- State funds and tuition are the two main sources for operating funds. **Tuition generates about one-third as much as state appropriations**, so it takes larger increases to make up for shortfalls in state funds. Table 2 (below) offers several possible ways that the university system’s medium-term needs could be funded:
Table 2.

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</thead>
<tbody>
<tr>
<td><strong>State funds increase</strong></td>
<td>0%</td>
<td>5%</td>
<td>7.5%</td>
<td>8.5%</td>
<td>10.5%</td>
</tr>
<tr>
<td><strong>Average tuition increase</strong></td>
<td>18%</td>
<td>12%</td>
<td>7.5%</td>
<td>5%</td>
<td>0%</td>
</tr>
<tr>
<td><strong>Average revenue increase</strong></td>
<td>8%</td>
<td>8%</td>
<td>8%*</td>
<td>8%</td>
<td>8%</td>
</tr>
</tbody>
</table>

*Note that a tuition increase of 7.5% with enrollment growth of 2% would generate tuition revenue growth of 9.5%*

- Option 5 shows the state funds increase that would be needed to finance this plan assuming no tuition increase each year.
- In years when sufficient state funds are not available to make tuition increases unnecessary, the Board would consider tuition adjustments to make up the difference, provided they remained within the parameters of this agreement.
- Out-of-state and graduate and professional school tuition increases would be left to the discretion of institutions but should take into account the cost of the programs, the benefits to the state, the future earning prospects of students, and competitors’ price structures.

**Board of Governors Commitments**

- The Board of Governors will collect and publish clear accountability information showing how the system and each institution is improving graduation rates and administrative efficiency over time; these will be used in the allocation of quality enhancement funds outlined above.
- The Board of Governors will ensure that systemwide administrative expenditures per student will decline each year of the plan, with savings redirected to quality improvements in core mission functions.
- As a result of improved graduation rates and utilization of the 2+2 system, the number of bachelor degrees awarded each year will increase faster than undergraduate enrollment.
- The Board will require universities to report on cost-containment measures as part of each year’s budget request.
University Commitments

- Provided that inflation-adjusted funding per student remains stable or improves, the system will grow to meet student demand and to reach its goals for degree production.
- If enrollment growth funding is limited, the first priority for any growth will be for Associate in Arts (AA) degree holders transferring from Florida Community Colleges pursuant to the state’s articulation agreement.
- Universities that plan to grow would do so only to the extent that they can do so while improving the retention and graduation rates of full- and part-time students.
- Unless special approval is granted by the Board and sufficient funding is appropriated by the Legislature, no university’s undergraduate enrollment would grow by more than 2.5% annually or more than a 2% averaged annual rate over five years.
- Any institution planning growth outside those parameters would have to make a separate request to the Board.
- Each university would enter into a separate, related performance agreement with the Board appropriate to its unique mission as part of the statewide understanding.
- Funding for graduate enrollment growth would be requested separately.

Student Guarantees

- Florida Prepaid Tuition contracts would be fully honored.
- After any statewide or university-initiated increases, average in-state undergraduate tuition and fees would remain within the bottom half of states.
- Florida’s rank among the states in average statewide in-state tuition and fees would not exceed its rank in per-capita income.
- Students would be admitted without respect to their ability to pay.
- A sufficient share, and in no case less than 20%, of any tuition increase, would be dedicated to need-based financial aid to ensure that students with financial need are able to attend.
- After financial aid increases, other funds from undergraduate tuition increases would be used to improve the quality of undergraduate education.
- By the end of the five-year phase-in, the state and individual universities would provide enough need-based financial aid to ensure that resident students can afford to attend any institution to which they are admitted regardless of their financial need. For students receiving financial aid, this could include an expectation that students contribute a certain amount (perhaps up to $5,000 a year, or about one-third of the current total cost of attendance) through part-time employment or loans.