

WE MUST DO BETTER!

Moving Florida's
State University System
to the Next Level in
Quality and Accessibility

A Report from
the Florida
Council of 100

January 2004

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A REPORT FROM THE FLORIDA COUNCIL OF 100

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About the Florida Council of 100

Formed in 1961 at the request of Governor Bryant, The Florida Council of 100 exists to promote the economic growth of Florida and to improve the economic well-being and quality of life of its citizens. It is a private, non-profit, non-partisan association whose members represent a cross-section of key business leaders in Florida. The Council was the first of its kind in the United States and works in close harmony with the Governor, the Chief Justice, and the Legislature, as well as with other private organizations to achieve its goals for all the people of Florida. The Council has other task forces and working groups on issues related to Front Porch Florida, tort reform and water management. The Higher Education Funding Task Force was established in late 2002 to consider all aspects of higher education funding and make recommendations for improvement where considered appropriate. Although task force proposals in this report are focused on the State University System, recognition of the role of the superior Community College System in preparing students for the universities is also acknowledged.

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Dear Governor Bush, President of the Senate King, and Speaker of the House Byrd:

SINCE OUR INCEPTION IN 1961, The Florida Council of 100 has had a continuing keen interest in improving Florida's state university system. Today, more than ever, we are convinced that Florida needs a high quality university system if our citizens are to have the career tools they need to compete in the ever-evolving business world of the 21st century, and that governmental programs must accommodate the higher education goals of students of all income levels. We know that you and others before you have shared this goal, and we commend you for your leadership actions to move our university system forward.

We can all certainly agree that our great state must guarantee that our public and private universities are producing enough graduates to meet the existing — and future— needs of the economy. However, this is not happening today, as Florida lags the nation in production of both bachelor's and advanced degrees, and does not currently produce enough college graduates to meet the existing needs of the workforce.

We must ensure that all capable high school students — regardless of financial need — have the opportunity to attend the college of their choice. As a continuously growing state, we must make sure our institutions of higher education have the resources they require to meet the growth demands, while improving both quality and accessibility.

We have conducted a study to analyze ways to do exactly that — improve quality and accessibility. Key in the analysis of university funding is understanding that the cost of educating an individual is comprised of two components — state contributions and student contributions. Over the years, the state's share of this cost has grown disproportionately to the student's share. In fact, our study shows that the taxpayers of Florida currently finance 86% of the cost of educating state university system students.

With all the competing needs for state funds, we believe it is appropriate that the user of the system — the student — pay a fairer share of the cost. If not, we fear Florida's university system will languish, and Florida will forever be chasing the rest of the nation in income growth and technological development. We believe there is a better way, through a combination of changes to university appropriations, tuition, student aid (need-based, Bright Futures, Florida Resident Access Grant), and the Pre-Paid Tuition Plan. Bold steps are possible and necessary to secure Florida's competitiveness for the future. We believe that now is the time for Florida to set its sights on moving our state university system to the next level — to improve both quality and accessibility — and this report lays out a roadmap to take us there.

Please recognize that we've tried to be realistic in our aspirations. While the ultimate goal of every Floridian should be to place Florida's university system in the top 10 of all states, we have a long ways to go. Consequently, our proposals are aimed at moving Florida to the national average — or slightly above — in the next five years, in key measurement areas. We urge you to take action to move Florida to the next level now, and continue to measure improvements, so that at some point in the near future we may truly aspire to be top echelon.

We understand that this will be a difficult transition to make. It will require an increased awareness of the role the state (the taxpayers) and the student have in paying for a university education. But it must be done....

We can do better. For the sake of Florida's future, we must do better.

Chris Sullivan
Chairman, The Florida Council of 100
Chairman and CEO, Outback Steakhouse, Inc.

Joseph P. Lacher
Chairman, Higher Education Funding Task Force
(President, Florida - Bellsouth Communications, Inc.)



[CHAPTER ONE]

PROJECT OVERVIEW

Objectives and approach

IN LINE WITH ITS LONG HISTORY OF INVOLVEMENT AND ENGAGEMENT in issues of higher education in Florida, The Florida Council of 100 undertook this study with the objective of improving the quality and accessibility of Florida's higher education system through funding adjustments. In particular, the Council sought to identify specific, practical changes that could have a major near-term impact on undergraduate degree production. Recognizing the need for a comprehensive, fact-based understanding of the funding flows in higher education in order to achieve this objective, the Council asked McKinsey & Company and CEPRI to collaborate on a pro-bono basis for a relatively brief and focused review of the system and develop potential options for improving performance.

The project approach for the 3-month study included:

- Interviews with key stakeholders across Florida's higher education system to develop a broad fact base and perspectives on potential options for improvement. Twenty leaders in higher education were interviewed one or more times each, and served as a representative cross-section of the system. [Note: A list of interviewees is included in the Appendix]
- A diagnostic consisting of analytic benchmarking of Florida's bachelor degree production versus other states to highlight opportunities for improvement.
- Economic modeling of the funding flows and several potential changes to determine the impact on the system as a whole.
 - The base data used for projections was for the 2002-2003 school year (and all data throughout the report will be that year, unless otherwise noted).
 - The main sources of information were publications as well as custom analyses from the following institutions:

- Council for Educational Policy Research and Improvement (CEPRI)
 - National Center for Public Policy and Higher Education (author of “*Measuring Up 2002*” report)
 - Office of Program Policy Analysis and Government Accountability (OPPAGA)
 - Office of Student Financial Aid (OSFA)
 - Southern Regional Education Board (SREB)
 - Washington Higher Education Coordinating Board.
- A series of meetings and workshops with the Council’s Higher Education Funding Task Force to collectively develop a recommended approach.

Scope of Study

The study focused on the production of bachelor degree graduates from the university system, both public and private, and how the funding flows could be used to maximize the quality and accessibility of these institutions, while maintaining or increasing the number of residents being educated. We have not included community colleges in this evaluation as the analysis of the indirect, albeit important contribution they have to bachelor degree production, requires more analysis than we could accomplish in the timeframe. Florida community colleges award more associates degrees per capita and introduce more upper-class students into public and private universities than any other state system in the peer group analyzed. The Council understands that there may be opportunities to leverage this great asset and encourages the development of specific plans to strengthen the community college system even further.

THE STUDY FOCUSED ON THE PRODUCTION OF BACHELOR DEGREE GRADUATES FROM THE UNIVERSITY SYSTEM, BOTH PUBLIC AND PRIVATE, AND HOW THE FUNDING FLOWS COULD BE USED TO MAXIMIZE THE QUALITY AND ACCESSIBILITY OF THESE INSTITUTIONS, WHILE MAINTAINING OR INCREASING THE NUMBER OF RESIDENTS BEING EDUCATED.

To effectively and efficiently develop recommendations, the Council focused on six key funding streams at the outset of the study to manage the scope of the efforts. Those funding streams include 1) state appropriations, 2) state university tuition and fees, 3) the Bright Futures scholarship program, 4) Pre-paid tuition plans, 5) need-based aid, and 6) the Florida Resident Access Grant (FRAG). These funding flows collectively represent virtually all of the revenues the State University System uses for education expenses, and predominantly affect Florida’s 11 public and 27 private colleges/universities. †



[CHAPTER TWO]

ASSESSING FLORIDA'S RETURN ON FUNDS INVESTED IN HIGHER EDUCATION

OUR DIAGNOSTIC OF FLORIDA'S INVESTMENT IN HIGHER EDUCATION FUNDING revealed that the state receives a lower return on funds, defined as number of bachelors degrees awarded divided by the millions of dollars of state funding, than national average (25.1 vs. 29.4). The main drivers of the state's return on funds are the lower-than-average tuition, high levels of non-need-based aid, average leverage of private institutions, and the resulting high ratio of tax payer funded state appropriations compared to tuition.

In school year 2002-2003, the State of Florida spent roughly \$2.3 billion dollars on university education, a figure which has been growing at nearly 5% per year, driven primarily by growing enrollment. This represents roughly 5% of the overall state budget.

- As shown in Exhibit 1, the state spent \$2,272 million dollars on university education, \$1,893 million of which was direct appropriations, and \$379 million was indirect through financial aid (merit-based and need-based).
- The \$1,858 million in appropriations for SUS universities funded 76% of their Education and General (E&G) budget, with students providing the remaining 24% or \$595 million. However, \$253 million of the \$595 million in student tuition was state financial aid, raising the state's funding of E&G budget to 86%.

We measured the effectiveness of state funds in generating bachelor degree graduates in terms of bachelor's degree graduates per \$1 million invested in university education, which we will refer to as the *Return on State Funding*, or ROSF. The current level of graduate production – 57,000 in 2002-03 – represents 25.1 graduates per \$1 million (or an ROSF of 25.1), which is well below the national average of 29.4 (ranking 38th out of 50 states), and lower than the peer² state average of 26.8.

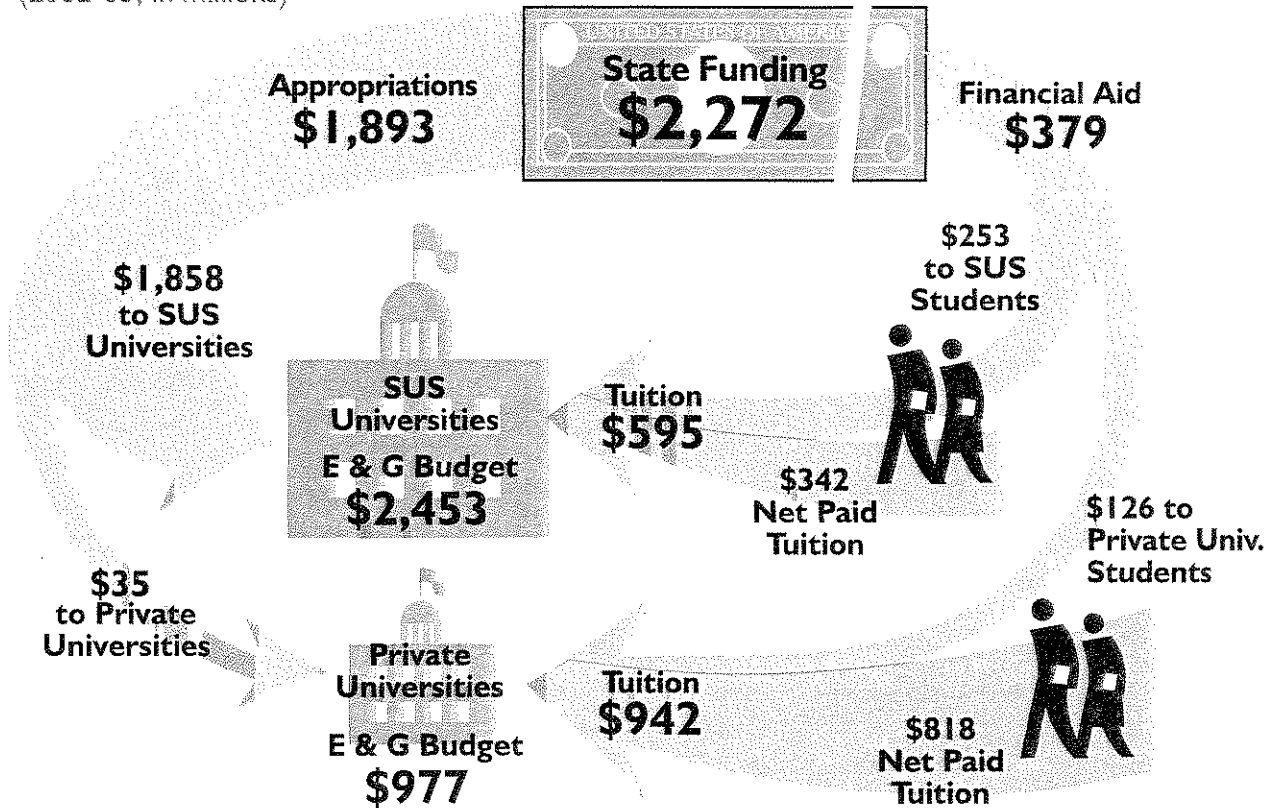
- The State of Florida's lower than national and peer average Return on State Funding

2. SREB peer states (see Appendix) are used throughout the study for benchmarking of detailed data which is not available at the national level

EXHIBIT 1:

The Flow of Funding for Florida's Higher Education System

(2002-03, in millions)



SOURCE: CEPRI; Office of Student Financial Aid, ICUF records; team analysis

is driven primarily by low non-State contributions of funds into educating Florida residents, not by a high overall cost of educating a bachelors graduate.

– The State of Florida provides funds for 86% of the total cost of university education (including financial aid), compared to 73% for the peer average. Conversely, this means that for every \$1 that the state of Florida spends on higher education, other parties spend 16 cents; in peer states, for every \$1 the state spends, other parties contribute 37 cents. The State of Florida is bearing more of the financial burden of education than other states, because it uses relatively “low leverage” in funding.

– The state’s ROSF of 25.1 is comprised of graduates from public and private institutions. From the state funding perspective, the private institutions have much higher “leverage”. Public institutions receive 95% of funding, graduate 69% of the state’s bachelor’s degrees, and have an ROSF of 19. Private institutions, on the other hand, receive 5% of the state’s funds invested into higher education and graduate 31% of the bachelor’s degrees, resulting in an ROSF of 155.

– The cost per enrolled student in Florida is \$14,900, compared to \$16,600 for the national average. Florida educates its citizens less expensively than other states, and therefore the cost of education is not the driver of the states' low return on funds invested in higher education.

– For this reason, the focus of the diagnostic analysis and recommendations covered in this document is primarily on state funding leverage. This is not to say, however, that there are not opportunities to lower the educational cost per student, such as by increasing the retention rate, lowering the average years to completion, or taking other analogous measures (although Florida already seems to be doing well with retention rates, with 55.1% of a given cohort completing a degree within 8 years, compared to 46.3% for the peer states).

- This ROSF gap is significant not just from the perspective of effective use of state (taxpayer) funds, but also because this low yield of graduates results in a significant (roughly 11%, or 6,500 degrees/employees) gap between the number of bachelor degree graduates and the number of jobs created every year in the state of Florida that require bachelor degrees.

- By improving its Return on Funding, the State of Florida could free up significant funds for re-investment in quality (decreasing student teacher ratios, funding student research, improving equipment), accessibility (e.g., need-based funding) and/or capacity (e.g., expansion). An increase in ROSF to the 2002-2003 national average implies roughly \$320 million freed up for reinvestment in some combination of these efforts.

To understand the drivers of Florida's low leverage of state funds, we analyzed each major component of educational funding (i.e., tuition, non-need-based aid, leverage of private institutions, need-based aid and appropriations) independently and compared to peer state and national averages. The results of this comparison showed that four funding streams were the largest contributing factors: tuition, non-need-based aid, leverage of private institutions, and appropriations.

Tuition

Tuition levels at public institutions in Florida are low compared to peer states and national averages, by most any means of comparison.

- Resident undergraduate tuition and fees for comprehensive institutions in Florida in 2002-2003 was \$2,691, compared to peer states (\$3,392, 26% higher) and the national average (\$3,718, 38% higher). The gap is even wider when compared to the average of comprehensive and flagship universities nationwide (\$4,197, 56% higher).

- Tuition in Florida is low even when factoring in the income levels in the state. Florida's tuition as a portion of median household income is 7.4%, compared to 9.0% for both

THE COST PER ENROLLED STUDENT IN FLORIDA IS \$14,900, COMPARED TO \$16,600 FOR THE NATIONAL AVERAGE. FLORIDA EDUCATES ITS CITIZENS LESS EXPENSIVELY THAN OTHER STATES, AND THEREFORE THE COST OF EDUCATION IS NOT THE DRIVER OF THE STATES' LOW RETURN ON FUNDS INVESTED IN HIGHER EDUCATION.

peer states and national average.

- As a percent of total E&G budget, Florida is also very low: tuition represents 24% of the E&G budget, versus 36% for peer states and 39% for the national average.

- Furthermore, after factoring in state financial aid, the net tuition students provide as a percent of the total E&G budget (14%) is significantly lower than peer states (27%), with the state absorbing the differential burden.

- Tuition levels have been increasing in the state at a rate of 6.5% from 1998-2003. This growth rate tracks between peer state and national trends, which grew at 6.3 and 6.8%, respectively, during that same time period. If these trends continue, the funding situation of Florida's institutions will not improve and may even fall further behind national relative tuition and funding levels.

- A CEPRI study concluded that tuition was not the largest part of the total cost of attending a public college or university in Florida. Tuition represented approximately 23% of the total cost of attending a public 4 year college, with the remaining cost items being housing, meals, personal/health, books/supplies/computers and transportation. Therefore, tuition increases have a smaller impact on the total cost of attending university: for example, a 10% increase in tuition would represent a 2.3% increase in the total cost of attendance.

Non Need-Based Aid

Bright Futures is an important program, started with the intent of retaining Florida's brightest students in-state. However, the current eligibility requirements (which are unchanged since its beginning) are low with respect to state averages (below median), making the program a free scholarship for some students that do not have financial need and in addition do not have a strong academic record. Consequently, the current program design has created a significant (and growing) financial burden, and reduced the net impact of tuition as a funding source.

- The Bright Futures program consists of Academic Scholars, the highest award for 4-year colleges, paying 100% of tuition and fees; Medallion Scholars, the lower tier award for 4-year colleges, paying 75% of tuition and fees; and the Gold Seal award for 2-year colleges, paying 75% of tuition and fees.

- In 2002-2003, Florida had 112,000 award recipients, and spent \$202 million, of which 75% of the recipients and 63% of the spending were for Medallion Scholars, the lower level award.

- Currently the eligibility requirements for the Medallion award allow below average students to receive merit-based aid. The 970 SAT requirement is below the 50th percentile of 2001-2002 average Florida SAT results of 995, and significantly below the national average of 1038 and SUS average of 1113. Additionally, more than 80% of SUS admitted students had incoming GPAs sufficient to receive the award.

- A large share of Florida's student population (nearly 60% of all SUS student FTEs) received non-need-based aid awards in 2002-2003.

- As a result, the state of Florida is financing a significantly larger share of student tuition through non-need based aid than peer states, funding roughly 33% of total SUS tuition, compared to 17% for peer average.

- Funding the program in its current state will become increasingly difficult due to budgetary constraints. State lottery revenues, the funding source for Bright Futures, have begun to plateau at ~\$1 billion, whereas Bright Futures funding requirements are projected to continue to grow, reaching ~\$350 million by 2008, a 10% annual growth rate.

- Furthermore, other states that have implemented similar programs, such as Georgia, Louisiana and New Mexico, are facing funding shortfalls and are considering various proposals to either increase eligibility or reduce the size of the awards. The HOPE program from Georgia, the original merit-based program after which many states modeled their own, is projected to have to dip into reserves within the next three years, and by 2008 be running a deficit of \$434 million.

Leverage Private Institutions

The Florida Resident Access Grant (FRAG) is a non-need, non-merit based grant for Florida residents who attend private higher education institutions in the state. FRAG is intended to broaden student choice and support institution diversity. The State of Florida currently spends \$80 million on FRAG, and private institutions produce ~15,000 bachelors per year.

- From the State of Florida's perspective, funding bache-

AS A RESULT OF LOW TUITION, THE STATE OF FLORIDA CONTRIBUTES SIGNIFICANTLY MORE HIGHER EDUCATION FUNDING DIRECTLY TO SCHOOLS THROUGH APPROPRIATIONS THAN PEER AND NATIONAL AVERAGES. THIS NUMBER IS HIGH BOTH ON A DOLLAR BASIS (\$11,300 VERSUS \$10,100 FOR NATIONAL AVERAGE) AND IN TERMS OF PERCENT OF TOTAL EDUCATIONAL COST (76% VERSUS 64% FOR THE NATIONAL AVERAGE).

lor degrees at private institutions has a much higher return. Private institutions represent 5% of the state's higher education funding, yet produce 31% of graduates, resulting in an ROSF of 155 (vs. 19 at public institutions).

- Florida has been leveraging private institutions to some extent, with 31% of graduates coming from private institutions, slightly higher compared to peer state average of 25%, but below the national average of 35%.

Appropriations

As a result of low tuition, the State of Florida contributes significantly more higher education funding directly to schools through appropriations than peer and national averages. This number is high both on a dollar basis (\$11,300 versus \$10,100 for national average) and in terms of percent of total educational cost (76% versus 64% for the national average).

While a number of factors may influence this comparative data slightly in one direction or another, it is clear that the State of Florida's current policies around tuition and student aid keep overall family contributions low, but significantly restrain the educational system from investing in quality, access for low income residents, and/or capacity. †



[CHAPTER THREE]

FLORIDA EDUCATION SYSTEM QUALITY AND ACCESSIBILITY

DESPITE THE LESS EFFECTIVE USE OF FUNDS DISCUSSED IN THE PREVIOUS SECTION, Florida's higher education system also lags peer and national averages along various important dimensions of quality and accessibility.

Quality of Florida's Education System

Measuring the quality of education is far from straight-forward, as there are no clear-cut and definitive metrics currently available. However, a look at various available proxies suggests the quality of the education received by SUS graduates is slightly below average.

- The percent increase in salary after receiving a bachelor's degree measures the market's recognition of the value of a degree from the state's institutions. On this dimension, Florida ranks 36th (based on data from Kiplinger's 100 Best Values in Public Colleges).
- The student-to-faculty ratio suggests the relative availability of instructors. For public universities, the state ranks 36th nationwide as well (based on data from Kiplinger's 100 Best Values in Public Colleges).
- The total amount spent by the university per student, the E&G budget per student FTE, indicates the total value of the goods and services purchased by the state in support of a student's education. Florida ranks 34th. Analyses of the states considered to provide quality education compared to their respective E&G budgets per FTE, showed that there is a statistically significant relationship between quality and dollars spent per student.

Accessibility of Florida's Education System

Despite the high contribution of the state to the total cost of university education and low tuition levels, both discussed previously, overall affordability of education in Florida ranks 38th in the Measuring Up 2002 report. This apparent contradiction is due to the low levels of financial assistance provided for low-income segments of the population.

- The percent of income (average for all income groups) needed to pay for college expenses-

es minus financial aid for Florida was 23%, compared to 18% for the top states in the 2002 ranking. Therefore, it appears that, on average, the state's affordability is reasonable (though slightly lower than top states).

- However, along the dimensions of accessibility to the lowest income segments, Florida lags significantly behind benchmarks. State aid targeted to low-income families (need-based aid) as a percent of federal Pell Grant aid for Florida was 16% according to Measuring Up, compared to 108% for the top states. The Pell Grant is good basis for comparison because it is the largest federal aid program, and has uniform definitions and qualification standards, making it a good benchmark for state-to-state comparisons.

MEASURING THE QUALITY OF EDUCATION IS FAR FROM STRAIGHT-FORWARD, AS THERE ARE NO CLEAR-CUT AND DEFINITIVE METRICS CURRENTLY AVAILABLE. HOWEVER, A LOOK AT VARIOUS AVAILABLE PROXIES SUGGESTS THE QUALITY OF THE EDUCATION RECEIVED BY SUS GRADUATES IS SLIGHTLY BELOW AVERAGE.

- Similarly, the share of income that Florida's poorest families need to pay for tuition at the lowest priced colleges (after financial aid) in the state is 13%, compared to 8% in top states, almost twice as much.

- On the other hand, Florida achieves a high degree of accessibility for minority students. On this dimension, Florida ranks 8th nationally. †



CHAPTER FOUR

INTEGRATED POLICY RECOMMENDATIONS

WE HAVE IDENTIFIED AND QUANTIFIED THE SUBSTANTIAL GAPS IN ROSF, quality and accessibility that exist between Florida and benchmark states. We now propose an integrated set of policy recommendations that include (1) changes needed to close the funding gap and thus free up state funds, (2) specific recommendations regarding the reinvestment of those funds in order to improve quality and accessibility of the system, and (3) a series of actions to ensure successful implementation.

Our plan consists of an integrated package of policy changes that must be implemented together due to the inter-relationships of the funding streams. Implementation of a partial solution could have unintended and potentially negative impacts. For example, if tuition is raised 10% without investing in need-based aid and adjusting the Bright Futures program, then the state winds up with only a 2% increase in tuition revenues, the E&G budget per student remains virtually unchanged, and accessibility would actually decline for up to 21% students.

Policy Decisions to Address Gap in ROSF

The policy decisions to address the low return on state funds consist of (1) accelerating rate of tuition increases, (2) increasing Bright Futures eligibility, (3) using part of the tuition funds and Bright Futures savings to compensate financially needy students affected by the changes, (4) increasing use of private institutions to educate more Floridians, and (5) accruing funds to ensure pre-paid plans remain fully funded. The combined effect of these policy changes frees up \$407 million in state funding in 2008-2009 versus the current trajectory.

I. Close current tuition gap vs. national average over the next 5 years by increasing tuition at a rate of 13.9% per year. This would entail a differentiated pricing approach with flagship universities moving to a higher tuition level than comprehensive colleges.

- In 2002-2003, the national average tuition and fees were \$3,718, and are projected to grow at 6.8%. For Florida to catch up to national averages in 5 years, tuition and fee levels would need to grow at 13.9% per year during those 5 years. Doing so would provide additional tuition revenue in 2008-2009 of \$200 million for the projected SUS enrollment under this scenario compared to the current trajectory of tuition and fees, and \$360 million compared to 2002-2003 tuition levels.

- Given that tuition represents only 23% of the total cost of attending college, tuition increases of 13.9% would translate into a 3% annual increase in the total cost of going to school.

- Increases in tuition will have a negative impact on students in financial need. Fully assisting the 21% of students in financial need because of increases in tuition would cost \$88 million by 2008-2009.

OUR PLAN CONSISTS OF AN INTEGRATED PACKAGE OF POLICY CHANGES THAT MUST BE IMPLEMENTED TOGETHER DUE TO THE INTER-RELATIONSHIPS OF THE FUNDING STREAMS. IMPLEMENTATION OF A PARTIAL SOLUTION COULD HAVE UNINTENDED AND POTENTIALLY NEGATIVE IMPACTS.

- The percentage of students in real financial need is approximately 21%. An OPPAGA study estimated that 17% of Bright Futures recipients and 22% of non-recipients had financial need, as defined by Federal standards. Additionally, based on CEPRI and OSFA data, 19% of SUS enrolled FTEs received state need-based aid, another indicator of the proportion of students in financial need.

- The net impact of the proposed tuition increases would be to materially reshape the sharing of the costs of education, with tuition as a percent of E&G budget increasing from 24% in 2002-2003, to 42% in 2008-2009.

2. Raise the bar on merit requirements for the Bright Futures scholarship program to account for rising student achievement in the K-12 system, to make the program truly merit-based. Medallion Scholar SAT requirements would rise to 1070 (from 970) and Academic Scholars to 1330

(vs. 1270). This change in program requirements would have made 43% and 65% of current Medallion and Academic Scholar award recipients, respectively, ineligible, reducing the size of the award program by 35%

- Increasing the Medallion award standard from an SAT of 970 to 1070 would raise the requirement above the 2001-2002 Florida average SAT score of 995 as well as the national average of 1038. It will also put the standard closer to the 2001-2002 SUS average SAT score of 1113. This increase in the Medallion SAT requirement would exclude approximately 43% of current recipients. Increasing the Academic Scholar requirement from 1270 to 1330 would exclude approximately 65% of current recipients, which would then become eligible for Medallion scholarships.

- The total impact of the proposed changes on 2002-2003 Bright Futures spending would have been a reduction from \$202 million to \$130 million, a \$72 million (or 35%) decrease. This impact projected out to 2008-2009 would translate into a difference of \$120 million in annual program size.

- Decreases in Bright Futures will have a negative impact on students in financial need. Helping fully compensate the students affected by this change would cost \$25 million, leading to a net Bright Futures savings of \$95 million in 2008-2009.

3. Increase need-based aid from \$80 million in 2002-2003 to \$202 million in 2008-2009 to ensure that changes to tuition and Bright Futures do not disadvantage students who need aid.

- As a percent of tuition revenues, need-based aid increases from 13% to 19% (despite division by a significantly larger tuition revenue pool, which increases from \$595 million to \$1078 million).
- The increases in need-based aid go beyond solely compensating financially needy students for changes in tuition and Bright Futures, to significantly improving the state's accessibility overall.

4. Ramp-up total FRAG allocation to \$120 million by 2006 to generate an incremental 6,500 graduates from the private system, leveraging their higher ROSF to have a large impact on the system.

- ICUF has presented a proposal offering to increase bachelor output to ~21,000 if FRAG is increased to \$120 million.
- Due to the large differential in ROSF between public and private institutions, further leveraging private institutions would have a significant impact on the state's objectives of educating more Floridians, satisfying its labor needs, and improving returns on its higher education spending.

5. Accrue approximately \$101 million per year beginning in 2005-2006 for the next 19 years to compensate for potential future deficits in the pre-paid tuition program arising from greater than expected tuition increases, and reprice new tuition and local fee contracts to \$16,367¹ (from the current price of \$11,915¹).

- The prepaid tuition program as of the close of its 2002-2003 enrollment period had sold 895,792 contracts, of which 642,000 (72%) were for tuition, 142,000 (16%) for dormitory costs, and 112,000 (12%) for local fees . Of the tuition and local fee contracts sold, 75% and 79%, respectively, were for university programs (with the remaining contracts being purchased for community colleges). Additionally, approximately 21% of all contracts sold are for 2+2 programs³.
- The pre-paid program contracts are predominantly sold to high income families, and non-minorities. Since its inception, 57% of contracts sold have been to families with incomes

1. Provided by Ernst & Young
3. Provided by the Pre-paid College Program

greater than \$50,000. For contracts sold during the last five years, 65% have been to families with incomes greater than \$50,000, and for 2002 the number was 69%. Since its inception, 81% of purchasers have been white families, and during 2002 enrollment period the share was 70%³.

- Based on an actuarial analysis of all contracts sold up to the 2002-2003 enrollment period, the Florida pre-paid program has an actuarial surplus of \$169 million. The assumptions in the analysis include tuition increases of 8.5% for the next 3 years and 6.8% thereafter; increases of 6.0% in local fees; and a return of 4.35% on the portfolio of investments¹.

- An actuarial analysis performed by Ernst & Young found that in order to ensure that all current pre-paid program contracts sold by the 2002-2003 period are honored, given the proposed tuition increases, the program needs to accrue \$50¹ million per year, which the state would need to provide.

- The same actuarial analysis also indicated that the new price required for a university tuition and local fee contract for a newborn child would be \$16,367, \$4,452 more than the price under the base actuarial assumptions¹.

- The pre-paid tuition program sold 9,407³ contracts during the first six weeks of 2002-2003. As of Dec 12, 2003, six weeks into the 2003-2004 enrollment period, the program had sold 16,192³ new contracts, a 72% rate of increase. If the program continues growing at this rate, by the first six weeks of the 2003-2004 enrollment period, the program will have sold approximately 135,000 new university tuition contracts, and approximately 50,000 new university local fee contracts. Including 2+2 contract sales would add the equivalent of another 35,000 university tuition contracts and local fee contracts. This rate of sales would lead to approximately a 30% increase in the total number of contracts sold since its inception.

- If the new university tuition and local fee contracts sold during the 2003-2004 enrollment period were to be priced at current levels (\$11,915 for a newborn, which assumes an 8.5% tuition growth for 3 years and 6.8% thereafter¹), compensating for them would require an additional accrual of \$51 million per year (assuming the price differential of \$4,452 for a tuition and local fee contract for a newborn child, and the projected growth rates).

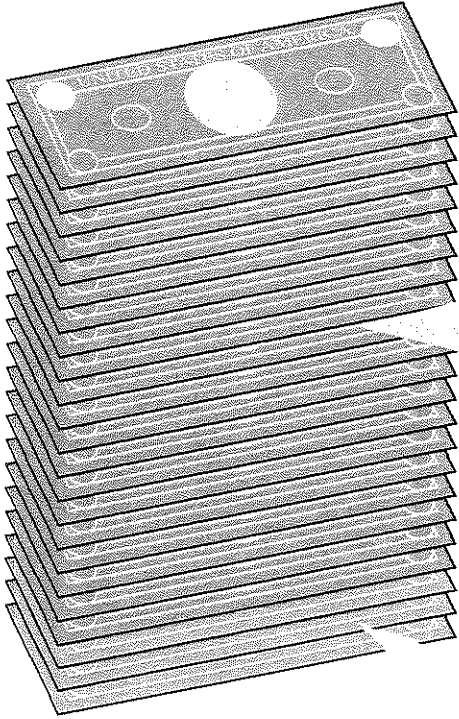
- If, however, the contracts were to be re-priced to reflect the projected increases in tuition, the additional \$51 million in annual accruals would not be necessary, or significantly diminished.

DUE TO THE LARGE DIFFERENTIAL IN ROSE BETWEEN PUBLIC AND PRIVATE INSTITUTIONS, FURTHER LEVERAGING PRIVATE INSTITUTIONS WOULD HAVE A SIGNIFICANT IMPACT ON THE STATE'S OBJECTIVES OF EDUCATING MORE FLORIDIANS, SATISFYING ITS LABOR NEEDS, AND IMPROVING RETURNS ON ITS HIGHER EDUCATION SPENDING.

EXHIBIT 2:

Distribution of Freed Funds Reinvested in Education

(2008-09 Projected)



**Total Available Funds:
\$407 Million**

\$366 Million to Quality

- Applied to increasing E & G budget/FTE
- Actual end use will be determined by the nature and mission of individual institutions
- Potential uses include undergraduate instruction, production of higher-level degrees and/or research

\$41 Million to Accessibility

- Direct investment accessibility beyond the increase in need based aid used to compensate for changes to tuition and bright futures

Reinvestment in Quality and Accessibility

The integrated set of policy recommendations involve reinvesting funds freed up through increases in tuition and fees, redistribution of student aid, and leveraging of private institutions, into improving the state's quality and accessibility. The distribution of funds is such that it incorporates the state's priorities and gaps, taking into consideration national rankings on the relevant dimensions.

Specifically, the \$407 million in funds freed in 2008-2009 would be reinvested as follows (shown in Exhibit 2):

- \$366 million (90%) for improved quality, in the form of increases in the E&G budget per FTE. This implies that the public universities do not increase enrollment with these incremental funds, so that per FTE spending truly grows.

NOTE: Reaching the level of quality and accessibility of the top 5 states (California, Massachusetts, Illinois, Minnesota & Connecticut) would require an additional investment of \$473 M above the \$407M made available for reinvestment, or \$582M for quality and \$298M for accessibility.

- \$41 million for improved accessibility through further increases in state need-based aid funding (above and beyond those already factored into the \$407 million, which were deducted to assist students-in-need for changes in tuition and Bright Futures program).

Key Factors for Successful Implementation

Successful implementation of The Florida Council of 100's recommended funding changes is critical to realizing the full, positive impact on quality and accessibility for Florida's higher education system. The Council is confident that the changes are implementable with an integrated effort from the legislature, the Department of Education, key program organizers (e.g., Bright Futures, Prepaid Plan) and the individual public and private institutions. To capture the maximum incremental value for the system, The Council believes that these stakeholders should energetically strengthen the implementation process by doing the following 3 things:

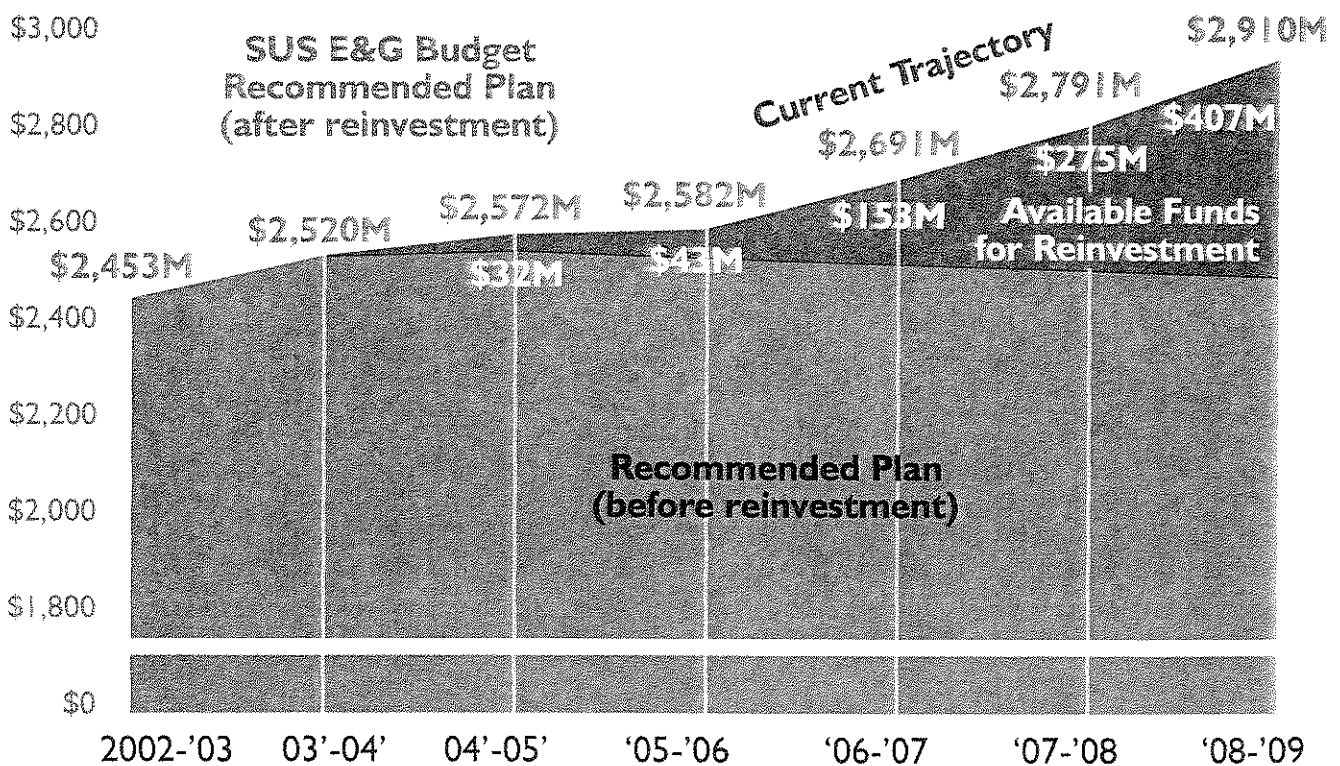
* **Ensure consistent direction over the next 5 years.** As per Exhibit 3, the available funds for reinvestment do not begin to accumulate in any significant volume until year 3. Lack of commitment to the directional changes over this period would put these funds and the overall benefits of the changes at risk.

* **Establish clear and internally consistent public university missions and objectives.** While it was beyond the scope of this effort, the Council understands that a strategic planning effort led by the DOE is underway. Among other things, distinct missions at each campus that are in line with cross-system objectives could allow for controlled enrollment growth, greater specialization and differentiated tuition pricing where appropriate.

* **Ensure accountability at the institutional level to deliver the anticipated quality and accessibility given reinvested funds.** With the appropriate alignment of objectives and clearly defined and measured outcomes, the multi-year funding contract proposal currently under consideration appears to be an effective approach to managing the state's ongoing investment in higher education. The development of a clear performance scorecard for each of the universities in the system (both public and private) that is aligned with the goals and objectives of the state is a necessary prerequisite. †

EXHIBIT 3 :

Impact of Recommended Policy Changes over Time



SOURCE: team analysis



CHAPTER FIVE

INTEGRATED IMPACT OF RECOMMENDATIONS

THE FLORIDA COUNCIL OF 100 HAS LAID OUT A SET OF GUIDELINES to free up and reinvest funds which, based on projections, will simultaneously increase Florida's Return on State Funds, and provide the capital needed to improve quality and increase the accessibility of higher education to low-income residents. These recommendations have been reached through numerous discussions with educational and political leaders, extensive modeling and scenario testing, and are believed to be low risk and practical. As discussed in the previous section of this document, these recommendations are highly inter-related and must be considered as a whole. Implementing a partial solution could have unintended and potentially negative impacts.

The specific recommendations are:

- Increase funding of need-based aid from \$80 million to \$243 million by 2008-2009, \$202 million of which is to ensure that changes in tuition and Bright Futures do not affect students who need aid, with an additional \$41 million to increase the state's accessibility for low income families even further.
- Increase tuition and fees at 13.9% per year for the next 5 years to reach national average tuition and fee levels.
- Raise the SAT requirements for the Bright Futures program to 1070 and 1330 for Medallion and Academic Scholars, respectively (from 970 and 1270) beginning in 2005-2006.
- Further leverage private institutions by increasing FRAG from \$80 million to \$120 million.
- Accrue \$101 million in funds per year beginning in 2005-2006, needed to ensure that all current pre-paid tuition contracts remain viable, and reprice new contracts to factor in new rates of tuition increase.

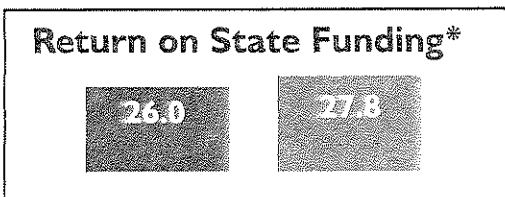
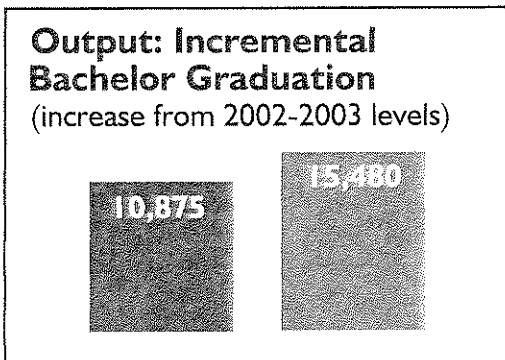
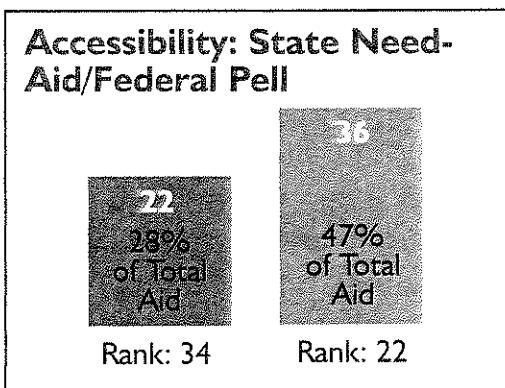
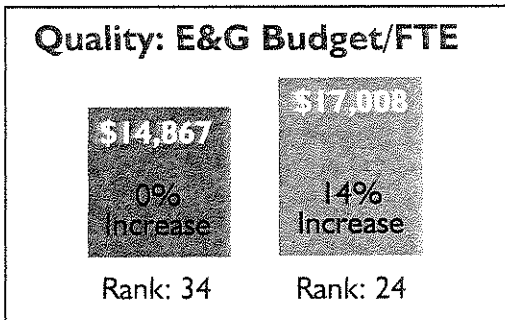
The projected collective impact of these recommended changes would be to improve the quality and accessibility of Florida's educational system, while improving the state's use of funds invested, as shown in Exhibit 4. The recommended policy decisions will have the following impact on quality, accessibility, labor market requirements, and return on state invested funds:

- In 2002-2003 the state spent \$80 million on need-based aid, representing only 3% of

EXHIBIT 4:

Impact of Proposed Policy Changes vs. Current Trajectories

Current Trajectory, 2008-2009
 Recommended Plan, 2008-2009



* ROSF for Florida as a whole, including public and private institutions, recommended plan results are post-reinvestment in quality and accessibility

SOURCE: team analysis

total E&G budget, 27% of state financial aid, and 19% of Pell Grant aid the state receives from the federal government (national rank: 34th). Increasing need-based aid to \$243 million represents a significant improvement in the accessibility of Florida's educational system. In 2008-2009, the \$243 million in need-based aid would represent 8.3% of the E&G budget, 47% of state financial aid, and 36% of federal Pell Grant aid (national rank: 22nd, assuming the ratios of other states remain constant). The impact of this change with respect to other states is shown in Exhibit 5.

- 2002-2003 SUS E&G budget per FTE was \$14,867, leading to the state ranking 34th in the nation along that dimension. Investment of an additional \$366 million would increase the E&G budget/FTE by 14% to 17,008, improving the state's ranking to 24th. The impact of this change with respect to other states is shown in Exhibit 5.

– Universities' E&G budgets include both undergraduate and graduate educational activities. Allocation of the funds invested into "quality" would be determined by the strategic plan of each institution. Flagship universities may choose, for example, to improve the quality of Florida's higher education system by investing in educating more graduate students, while others may choose to dedicate more funds to undergraduate programs to improve undergraduates' learning experience.

– Depending on desired policies or the specific mission of the institution, this would allow the system to simultaneously increase the amount spent on teaching by 25%, produce 100 more PhDs per year, reaching national average graduate degree production, and increase research budgets by 25%.

- Comparison of the projected annual

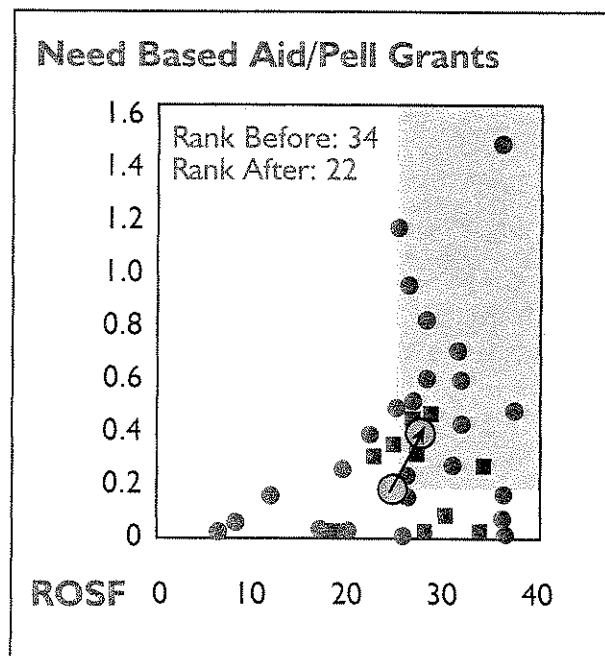
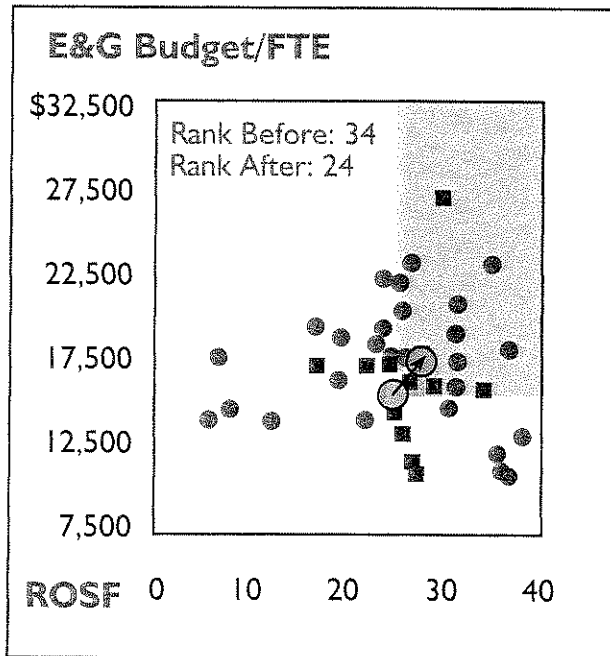
growth in job openings requiring bachelor's degrees versus the total bachelor graduation rate revealed a gap of roughly 6,500 bachelor degrees annually. The recommended policy changes would increase the number of graduates by that amount by 2007-2008, to a large extent through growth in private institution graduates. By 2008-2009, the plan will still be graduating 4,600 more bachelor degrees than the current trajectory, effectively going beyond closing the gap in bachelor requirements to meet labor market needs.

- The state's investment in higher education of \$2.3 billion in 2002-2003 produced 57,000 bachelors degree, for an ROSF of 25.1. By 2008-2009, with the proposed policy changes, and after having improved the quality and accessibility of the system, the state would be graduating 72,500 students, for an ROSF of 27.8. +

EXHIBIT 5:

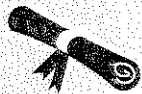
Florida's Quality and Accessibility Before and After Recommended Policy Changes

● Florida ■ Peer States ● Others



NOTE: Assumes quality and accessibility ratios do not change over time in other states. Based on latest comparable data (2001-2002)

SOURCE: SREB Education Data, team analysis



[APPENDIX]

APPENDIX I: List of acronyms and definitions

CEPRI: Council for Educational Policy Research and Improvement.

E&G: Education and General. Portion of universities' budgets used directly in educating students.

FRAG: Florida Resident Access Grant. State financial assistance program for students attending private institutions.

FTE: Full Time Equivalent. Number of full time students that would take as many courses as the actually enrolled full time and part time student body does. Used to facilitate side-by-side comparisons of institutions. Estimated full-year full-time-equivalent undergraduate enrollment represents 12 months of academic work and is derived by dividing total undergraduate semester credit hours by 40 and total graduate semester hours by 32.

ICUF: Independent Colleges and Universities of Florida.

OPPAGA: Office of Program Policy Analysis and Government Accountability

OSFA: Office of Student Financial Aid

ROSF: Return on State Funds. Metric defined as number of undergraduate degrees produced annually per \$1 million of state (taxpayer) funds invested in college education (both public and private).

SREB: Southern Regional Educational Board. Comprised of 16 states: Alabama, Arkansas, Delaware, Florida, Georgia, Kentucky, Louisiana, Maryland, Mississippi, North Carolina, Oklahoma, South Carolina, Tennessee, Texas, Virginia, and West Virginia.

SUS: State University System. Florida's public universities.

APPENDIX 2: List of Interviewees

| Interviewee | Institution/Organization |
|------------------|---|
| Theresa Antworth | State Programs Director, Office of Student Financial Assistance |
| Donna Arduin | Director, Planning and Budgeting, Office of the Governor |
| Debra Austin | Chancellor, Colleges and Universities, Department of Education |
| David Armstrong | Chancellor, Community Colleges, Department of Education |
| John Delaney | President, University of North Florida |
| Ray Ferrero | President, Nova Southeastern University |
| Fred Gainous | President, Florida A&M University |
| Judy Genshaft | President, University of South Florida |
| Phil Handy | Chairman, Florida Board of Education |
| John Hitt | President, University of Central Florida |
| Pat Levesque | Office of the Governor |
| Mitch Maidique | President, Florida International University |
| William Merwin | President, Florida Gulf Coast University |
| Carolyn Roberts | Chair, Florida Board of Governors |
| Donna Shalala | President, University of Miami |
| Stan Tate | Chairman, Florida Pre-Paid Tuition Plan |
| Ron Vaughn | President, University of Tampa |
| TK Wetherell | President, Florida State University |
| John Winn | Chief of Staff, Department of Education |
| Chuck Young | President, University of Florida |