Council for Education Policy, Research and Improvement

The Benefits of Multi-Year Contracts Between the State and Public Universities:

Linking Performance, Funding, and Mission

Prepared in Response to Specific Appropriation 2545
of the 2003 General Appropriations Act
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TABLE OF CONTENTS

Figures

Tables

COUNCIL FOR EDUCATION POLICY, RESEARCH AND IMPROVEMENT

BENEFITS OF MULTI-YEAR CONTRACTS BETWEEN THE STATE AND PUBLIC UNIVERSITIES

EXECUTIVE SUMMARY

The University of Florida and Florida State University proposed to the 2003 Legislature a new approach to funding: a 5-year contract between the Legislature and the universities that would guarantee each university a certain level of funding while guaranteeing a certain level of performance. Their contract proposal also would have given both universities the authority to set their own tuition. Rather than proceed with that proposal, the Legislature directed CEPRI, through proviso language, to submit a report on the feasibility of such contracts by November 1, 2003.

During the course of its study, CEPRI realized that the concept being proposed by these two institutions could be expanded to provide a cohesive plan for the state university system. Expanding the concept would provide an exciting opportunity to define the mission of each university within the framework of a seamless K-20 system. The contractual approach described in this report would ensure that regional and state priorities were being met, while providing a strong and direct link between a university's performance and its ability to initiate tuition increases, thereby closing the gap between mission, performance and funding. Such a mechanism would be groundbreaking and would place Florida in the forefront of performance funding in higher education. Florida could quickly become a model for other states. The Council strongly believes that the contractual approach described in this study should be embraced and utilized.

Several conclusions were reached during the course of the study. In most states, but not in Florida, the authority to raise tuition and out-of-state fees is given to university governing boards. As reflected in Figure i, tuition and fees are not the primary cost of attending college; rather, the primary cost is the time it takes to obtain a degree. Revenues from tuition and fee increases can benefit students by providing the classes and services they need to graduate in a timely manner, increasing student financial aid, and improving the quality of instruction and value of the degrees they are receiving. As a result, tuition and fee increases can actually save students money during the course of their study, while ultimately providing them with a more valuable degree from a quality institution. Providing the authority to increase tuition and fees as an incentive to meeting state performance goals would combine new revenue with clear direction on the utilization of that revenue. In addition to benefiting students, new funds could be used for increasing production of graduates to meet state employment needs and increasing research in support of economic development.

Legislative Charge

The General Appropriations Act (GAA) for FY 2003-04 included proviso which directed CEPRI to study the feasibility of 5-year contracts between the state and certain universities. The full text of the proviso is as follows:

> From the funds in Specific Appropriation 2545, the Council for Education Policy Research and Improvement shall conduct a study of the feasibility of 5-year contracts between the State of Florida and the University of Florida, the State of Florida and Florida State University, and the State of Florida and Florida International University to provide programs and services at a level no less than that currently available to Florida residents. At a minimum the study shall identify the services and programs to be provided by each institution; the desired outcomes of each contract, including performance measure and standards for evaluating the achievement of such outcomes; the procedures to be used to collect data to demonstrate compliance with the terms and conditions of each contract; penalties, if any, for failure to comply with the terms and conditions of each contract; any anticipated obstacles to successful implementation of such contracts, and the cost of each contract to the State. A final report and recommendations, including a draft contract, shall be submitted to the Governor, the Speaker of the House of Representatives and the President of the Senate by November 1, 2003.

Subsequent to the adoption of the GAA, the Speaker of the House directed CEPRI to include the University of Central Florida and the University of South Florida in the study.

Study Methodology

Literature reviews, surveys, legal reviews, and interviews were utilized in studying the concept of multi-year contracts. There was a panel discussion of invited university presidents or their representatives at CEPRI's July 9, 2003, meeting. In addition, in an effort to fully utilize the work being undertaken by DOE, departmental activities were monitored regarding the K-20 Education Performance Accountability project. Since CEPRI members wanted all public universities to have the opportunity to participate in activities related to the study, all eleven universities were kept apprised of Council activities and were invited to give input regarding the contract proposal. Legislative staff and staff from the Governor's office were periodically briefed as the study progressed.

Public hearings were held on August 13, 2003, in Fort Myers; September 10, 2003, in Tampa; and October 8, 2003, in Tallahassee. In addition to being placed on CEPRI's web site on October 1 for consideration by the general public, drafts were submitted directly to DOE Division of Colleges and Universities staff, legislative staff, and staff in the Governor's Office for their review. University personnel were also given copies of the draft report to review on October 1 and were invited to provide input at the October 8 meeting.

Findings and Recommendations

Legalities of Multi-Year Contracts: A fundamental question that was researched was whether it is legal to have a multi-year contract with Florida's Legislature, as proposed by UF and FSU. Statutory language, court cases, and constitutional language were reviewed to locate citations relevant to the feasibility of multi-year contracts.

The review resulted in four basic conclusions: (1) One legislature can not bind a future legislature; (2) Due to the separation of powers, the executive branch can not bind the legislature in funding executive agreements; (3) Any contracts requiring annual appropriations must include a statement making payment contingent upon an annual appropriation by the Legislature; and (4) The Legislature can not be required to provide annual funding unless the constitution includes such a provision.

Parties to the Contract: When UF and FSU first proposed the use of a 5-year contract, it was with the assumption that the contract would be between the Legislature and the universities. However, the proviso language in the General Appropriations Act directing CEPRI to conduct the study did not specify the Legislature as one of the parties. Instead, proviso indicated the contract would be between the State of Florida and each of the universities. Using the broader term "State," rather than the term "Legislature," allowed CEPRI to consider other options that may be more appropriate than the one contained in the original UF/FSU proposal. Considering other options led the Council to determine that the Board of Governors was the most appropriate party to enter into a contractual relationship with the universities, because of its relationship to the universities: Article IX, Section 7, of the State Constitution establishes the Board of Governors as the board that operates, regulates, controls, and is fully responsible for the management of the whole university system (See **Recommendation 1**). Since the Constitution is the overriding document of the State, there seems to be no doubt that the Board of Governors is the entity that should be contracting with the universities.

A contract between the Board of Governors and the universities' Boards of Trustees could not guarantee a certain level of appropriations annually, but, with the appropriate statutory structure adopted by the Legislature, it could create a process by which flexibility, funding expectations, and performance goals could be accomplished. Article IX, Section 7, of the Constitution gives the Board of Governors the responsibility for defining "the distinctive mission of each constituent university and its articulation with free public schools and community colleges, ensuring the well-planned coordination and operation of the system, and avoiding wasteful duplication of facilities or programs." Contract negotiations would provide an opportunity for the Board of Governors and a university Board of Trustees to define expectations for the university's performance, based on its unique mission. As discussed in the report, the contract would also be a mechanism to provide a direct link between a university's performance and its ability to have tuition flexibility, thereby closing the gap between mission, performance, and funding.

Process for Contracting: The process for developing, negotiating, signing, and monitoring the implementation of a contract is reflected in **Recommendations 2-6**. As reflected in Figure 2 of the report, on page 24, there is a unique role for each of the major players in the process – the universities, the Board of Governors, the Legislature, the Governor, and CEPRI. In fact, for these contracts to successfully be implemented, each of these parties must embrace the concept of performance funding contracts.

CEPRI members strongly believe that all universities should participate in a contractual relationship with the Board of Governors, since this approach would provide an opportunity to define the mission of each university within the framework of a seamless K-20 system. The contract would be a vehicle for establishing a system that would best meet the needs of the citizens of the state. The recommendations reflect this, and specify that each university should, prior to negotiating a contract with the Board, develop a proposal that would include objectives, tuition flexibility policies, performance measures and standards, and implementation plans.

Structure of the Contract Template: The proviso directing CEPRI to conduct this study specified that a draft contract be included as a part of the report. The draft contract is reflected in Figure 3 on page 30 of the report, and **Recommendations 7-17** address its technical aspects, such as the term of the contract and its execution.

Fiscal Specifications: Figure 4 on page 32 reflects the template for the Contract Specifications, which is an attachment to and a part of the contract. It is designed to reflect fiscal and performance expectations that will vary among universities. Fiscal Specifications are addressed in **Recommendations 18-21.** The primary points in these recommendations are:

- **Universities in contractual relationships with the Board of Governors should be given unlimited flexibility in setting tuition and out-of-state fees.** Programs such as Bright Futures and the Prepaid Tuition Program may need to be adjusted in order to be compatible with unlimited tuition flexibility. Some types of tuition flexibility may be possible, though, without impacting these programs, as noted in the report.

- **The contract should specify a constant level of funding per planned FTE for enrollment growth. Funded FTE should be that amount of FTE that could be funded within available resources, allowing unfunded enrollment to be funded when financial conditions improve.**

- **The Department of Education should identify adjustments needed to be made to financial aid programs to implement variable fee schedules, such as block fees and differential fees by time of day.**

Performance Specifications: The contract process provides an opportunity for the Board of Governors and each university's Board of Trustees to define expectations for the university's performance, based on its unique mission. The contract is a mechanism for providing a direct link between a university's performance and its ability to have tuition flexibility, thereby closing the gap between mission, performance, and funding. **Recommendations 22-30** address the performance expectations. Some expectations would be included in each university's contract; others would be unique to an institution, depending on its mission. Performance expectations that should be addressed in each contract are:

- **Addressing priorities of the State;**

- **Assisting students in staying on track for degree completion and reducing time to degree completion;**

- **Providing student access and graduation;**

- **Containing student cost;**

- **Receiving sufficient feedback from students and employers;**

- **Maintaining accreditation by the Southern Association of Colleges and Schools (SACS).**

Incentives and Penalties: Proviso required the study to include "penalties, if any, for failure to comply with the terms and conditions of each contract." **Recommendations 31-33** support tuition flexibility, including the ability to increase tuition and fees, as being the reward for meeting performance expectations – and the loss of the ability to increase tuition and fees if the university does not meet its performance expectations on critical measures. Specifically, these recommendations provide that:

- **The authority for tuition flexibility and the revenue it can produce should be used as the performance funding reward for universities;**

- **If any performance standards are not met, the university should present to the Board of Governors its plan for improving its performance on the measure(s). Updates on the plan's implementation should be presented to the Board until the university's performance has met the standard(s) specified in the contract.**

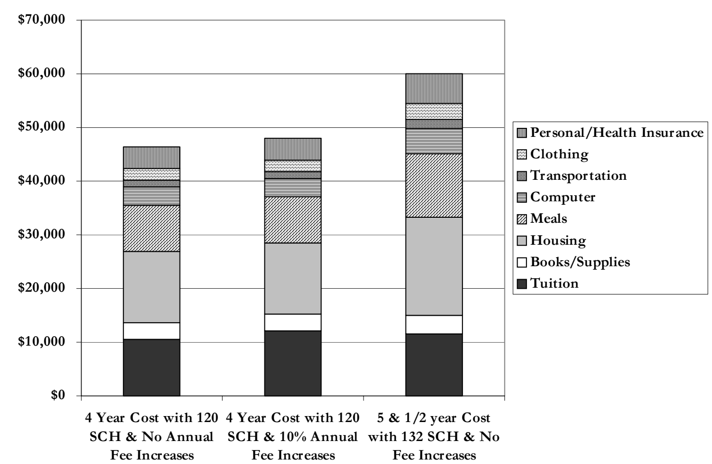
- **If the performance standards for any critical measures are not met in a year, then the university should lose its ability to increase tuition until its performance has met those standards. The critical measures should be clearly identified in the contract, and should include student access.**

Tuition Flexibility: Three important conclusions were reached during the course of the study:

1. Tuition and fees are not the primary cost of attending a university and are not the primary contributor to the risk of making college unaffordable. The primary cost of university attendance is the time it takes to attain a degree. The typical pattern of taking five or more years for a full-time student to complete a degree is much more expensive than even large fee increases. The following figure compares the cost of attending the University of Florida for four years, based on 2003-04 costs, to the cost with three years of ten percent tuition and fee increases and the cost of taking six years to complete the degree with no tuition increases.

Figure i (Figure 13 of Report)

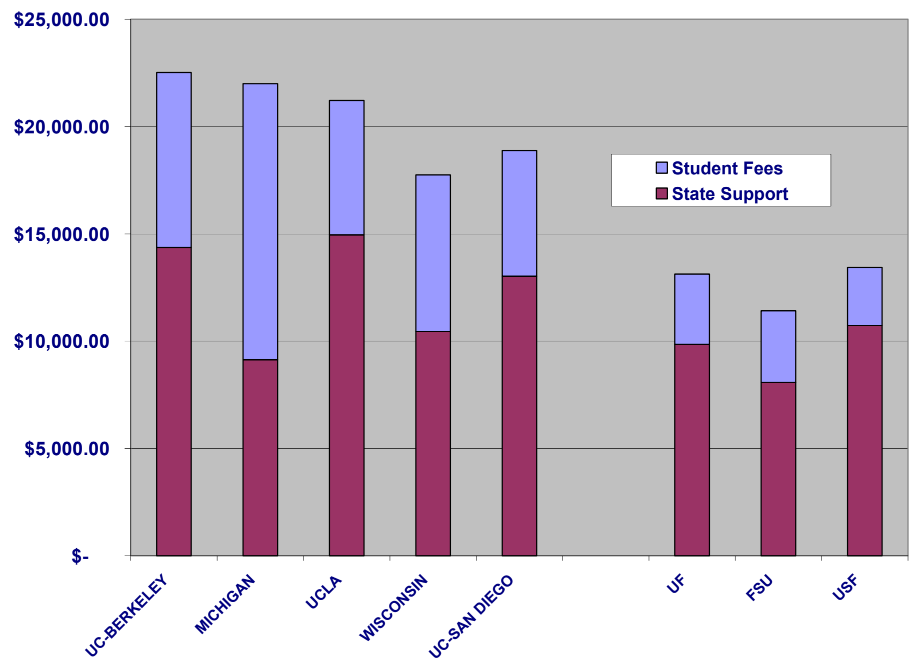
Tuition Increases Impact Total Cost of Achieving a Degree Much Less than the Time Taken to Graduate



2. The authority to raise tuition and out-of-state fees should be used as the performance incentive. Tuition flexibility can be handled administratively, providing an immediate response to performance.

Figure ii (Figure 26 of Report)

Student Fee Revenues are the Major Difference in Funding per FTE Between Florida's Research I Universities and the Top 5* Public Universities in 1999-2000



3. The very low tuition charged to resident undergraduates, particularly at the large doctoral-granting universities, is the primary difference between the funding of Florida's universities and the funding of public universities that are able to have a profound economic impact on their states. Figure ii compares state and tuition funding between Florida's largest research universities and the top ranked public universities in the country.

Data Collection: The last recommendation, **Recommendation 34**, addresses the need for the university to maintain data and records in accordance with applicable laws and regulations.

Anticipated Obstacles

There are several challenges to developing and implementing a contracting process between the Board of Governors and the individual universities:

1. For this concept to work, it will have to be embraced by the Legislature, the Governor, the Board of Governors, and the universities' Boards of Trustees. Opposition from any one of these parties could prevent the successful implementation of a contractual process.

CEPRI strongly feels that the contract approach provides an opportunity for defining system and university priorities, clarifying university missions, and linking performance with funding. It is a bold, creative and forward-thinking approach to university management and funding. It does, however, represent a change in the way business has been done in the past, and change is sometimes difficult to embrace. All parties are encouraged to contact CEPRI members or staff to discuss the positive policy implications of this proposal.

2. Implementation of tuition flexibility could require revisions to current practices and policies and/or the establishment of new procedures and policies to avoid negative consequences. Examples include: (1) Reconciliation of tuition flexibility with the Bright Futures and Prepaid Tuition Programs, and (2) Maintenance of access by low-income, place-bound, and part-time students.

3. Large budget reductions at either the state or federal level could impact a university's ability to meet its performance expectations.

Budget reductions should have no impact on the successful implementation of a contract. Provisions have been made for renegotiating a contract at any point, so revised standards could be negotiated for performance measures that may be impacted by budget reductions.

Conclusions

The type of contract described in this report would provide a strong and direct link between performance and funding, thus ensuring that programs that support regional and state priorities, such as economic development, were being strengthened through new revenues from tuition and out-of-state fees, while providing a strong and direct link between performance and funding. The report also describes how tuition increases, combined with initiatives to facilitate student progression through to degree attainment, can actually save students money.

The contractual approach would be groundbreaking and would place Florida in the forefront of performance funding in higher education. Florida could quickly become a model for other states. The advantages of this approach provide real and significant benefits to the Legislature, the Governor, the Board of Governors, the universities, and students. The Council strongly believes that the contractual approach described in this study should be embraced and utilized.

Recommendations

The following recommendations reflect the important elements of the contractual approach and are grouped under the following headings: Process for Contracting; Structure of the Contract Template; Fiscal Specifications; Performance Specifications; Incentives and Penalties; and Data Collection.

Process for Contracting

1. **Because of its constitutional responsibilities, the contract should be between the Board of Governors and the university Board of Trustees.**

2. **<u>Role of the Board of Governors:</u> The Board of Governors should take a pro-active role regarding contracting with individual universities, recommending to the Legislature objectives, criteria, and an overall process for contract development, adoption, implementation, and monitoring, by January 1, 2004. After the Legislature has established the framework for contracting, the Board should develop rules or guidelines for the process, negotiate contracts with individual universities, monitor implementation, and submit annual reports to the Governor and Legislature.**

3. **<u>Role of the Legislature:</u> While taking CEPRI's and the Board of Governors' recommendations into consideration, the Legislature should statutorily create the overall framework within which contracts could be developed, thereby reflecting its support of the concept.**

4. **<u>Role of the Governor:</u> The Governor should signify his support of contracts by signing the legislation that creates the framework within which they could be developed.**

5. **<u>Role of CEPRI:</u> After submitting the report and recommendations required by the 2003 Legislature, CEPRI should develop criteria for evaluating university proposals. In addition, CEPRI, as an independent entity, should evaluate the process and the contract's impact on students and the university after the first two years of contract implementation.** Such an independent review should include input from state policymakers, educators, students, and the general public.

6. **<u>Role of the University:</u> All state universities should participate in the contracting process. Prior to beginning the negotiations process with the Board of Governors, each university should develop a proposal that would include specific objectives, tuition flexibility policies, performance measures and standards, and implementation plans.**

Structure of the Contract Template

7. **The details negotiated in the Contract Specifications should reflect the unique mission of the contracting university.**

8. **As consideration for services rendered by the University pursuant to this contract, the Board of Governors should agree to request the amount of state funds as specified in the Contract Specifications and permit tuition flexibility as authorized by the Legislature and specified in the attached Contract Specifications.**

9. **For the Board of Governors, the Contract Manager responsible for overseeing the implementation of the contract should be the Chancellor or his/her designee. For the university, the Contract Manager should be the president or his/her designee.**

10. **Either party should be able to cancel the contract upon written notification to the other party's Contract Manager. If notice of cancellation is given on or between July 1 and December 31, the cancellation should be effective at the end of the State of Florida fiscal year in which the notice is given. In the event notice is given on or**

between January 1 and June 30, the cancellation should be effective at the end of the subsequent fiscal year.

11. **A contract should become effective July 1 of the fiscal year subsequent to its execution by the parties and shall continue in force for a period of three years. By mutual agreement of the parties, the contract should thereafter be extended for additional one year periods.**

12. **The University should agree that its performance of any other services during the term of this contract shall not interfere with the faithful and timely performance of this contract.**

13. **Either party's performance under this agreement is subject to acts of God, war (declared or undeclared), Federal government regulation, terrorism, disaster, strikes, civil disorder, curtailment of transportation facilities, or similar occurrence beyond the party's control, making it impossible, illegal, or impracticable for one or both parties to perform its obligations under this agreement, in whole or in part. Either party may terminate this agreement without liability for any one or more of such reasons upon written notice to the other party within 10 days of such occurrence or receipt of notice of any of the above occurrences.**

14. **The parties to the contract should have three options for resolving disputes: renegotiation, mediation, and cancellation.**

15. **The parties should not be able to change the contract, except in writing by the signature of both parties.**

16. **The chairman of the Board of Governors should sign the contract on behalf of, and after approval by, the Board of Governors.**

17. **The chairman of the university Board of Trustees should sign the contract on behalf of, and after approval by, the Board of Trustees.**

Fiscal Specifications

18. **A constant level of funding per planned FTE should be specified in the contract for enrollment growth. Funded FTE should be that amount of FTE that could be funded within available resources, and then unfunded enrollment could be funded when financial conditions improve.**

19. **Universities in contractual relationships with the Board of Governors should be provided unlimited flexibility to set student tuition and fees.**

20. **The Department of Education should identify adjustments needed to be made to financial aid programs to implement variable fee schedules, such as block fees and differential fees by time of day.**

21. **Public Education Capital Outlay (PECO) should not be addressed in the contract at this time.** It may be reasonable to review this issue subsequent to the release of recommendations by DOE's Advisory Council on Educational Facilities.

Performance Specifications

22. **The Contract Specification should include a performance expectation related to assisting students in staying on track for degree completion.** While strategies may vary by institution, universities may consider implementing a Universal Tracking system similar to that implemented by the University of Florida.

23. **Each university contract should include performance measures related to student access and graduation.**

24. **Each university contract should require a specific plan for containing student cost.** The plan should be based on an analysis of the characteristics of the university's student population.

25. **The contract should address priorities of the State.** These priorities could include, but not be limited to, addressing the shortages of teachers and nurses, increasing the number of high-quality education leaders, and increasing graduates in scientific and technical fields to support economic growth.

26. **The contract should ensure that sufficient feedback is being received from students and employers to assist in determining institutional quality.**

27. **The contract should include a performance expectation that requires the university to maintain its SACS accreditation.**

28. **The State Board of Education's definitions, measures, standards, performance improvement targets, rewards and sanctions should be considered during contract negotiations between the Board of Governors and the universities.**

29. **Any significant changes to the federal Higher Education Act would need to be taken into consideration during contract negotiations to ensure compliance with federal government regulations.**

30. **The contracts should specify performance outcomes, giving each university the flexibility it needs to achieve those outcomes within current law and rules.**

Incentives and Penalties

31. **The authority for tuition flexibility and the revenue it can produce should be used as the performance funding reward for universities.**

32. **If any performance standards are not met, the *University* should present to the Board of Governors its plan for improving its performance on the measure(s). Updates on the plan's implementation should be presented to the Board until the university's performance has met the standard(s) specified in the contract.**

33. If the performance standards for any critical measures are not met in a year, then the *University* should lose its ability to increase tuition until its performance has met those standards. The critical measures should be clearly identified in the contract and should include student access.

Data Collection

34. The contract should require the university to maintain data and records in accordance with ss. 1001.74(16), 1001.75(17), 1008.31(4) F.S., and other applicable laws and regulations to ensure the quality and continuity of data needed for determining compliance with the terms and conditions of the contract.

INTRODUCTION

Legislative Charge

The General Appropriations Act (GAA) for FY 2003-04 included proviso which directed CEPRI to study the feasibility of 5-year contracts between the state and certain universities. The full text of the proviso is as follows:

> From the funds in Specific Appropriation 2545, the Council for Education Policy Research and Improvement shall conduct a study of the feasibility of 5-year contracts between the State of Florida and the University of Florida, the State of Florida and Florida State University, and the State of Florida and Florida International University to provide programs and services at a level no less than that currently available to Florida residents. At a minimum the study shall identify the services and programs to be provided by each institution; the desired outcomes of each contract, including performance measure and standards for evaluating the achievement of such outcomes; the procedures to be used to collect data to demonstrate compliance with the terms and conditions of each contract; penalties, if any, for failure to comply with the terms and conditions of each contract; any anticipated obstacles to successful implementation of such contracts, and the cost of each contract to the State. A final report and recommendations, including a draft contract, shall be submitted to the Governor, the Speaker of the House of Representatives and the President of the Senate by November 1, 2003.

Subsequent to the adoption of the GAA, the Speaker of the House, Johnnie Byrd, directed CEPRI to include the University of Central Florida and the University of South Florida in the study.

Overview

In states throughout the country, and at the federal level, attention has increasingly been focused on accountability in higher education. Increased competition for limited resources, demographic changes, workforce needs, and higher expectations from the K-12 standards and accountability movements have led to discussions about new approaches to both funding and accountability. The University of Florida and Florida State University jointly developed a proposal that merged the concepts of guaranteed funding with guaranteed performance.

UF/FSU Proposal: During the 2003 legislative session, the University of Florida and Florida State University proposed to the Legislature a new approach to funding: a 5-year contract between the Legislature and the universities that would guarantee each university a certain level of funding while guaranteeing a certain level of performance (See Appendix A). The contract proposal also gave each university the authority to set its own tuition.

This proposal would result in a drastic change to the current funding process, both for universities and for the state as a whole. Currently the Governor recommends and the Legislature adopts annual budgets. Under the current process, state priorities are considered each year and reconciled to the revenues available to the Governor and Legislature. The contract proposed by UF/FSU would change this process for participating universities by setting the funding policies and funding levels under which their budgets would be developed for a period of five years, regardless of the level of revenues available annually for the state as a whole or for public universities in general.

Rather than proceed with the UF/FSU proposal, the Legislature directed CEPRI, through proviso language, to submit a report on the feasibility of such contracts by November 1, 2003.

Florida's Current Flexibility: Over the past several years, Florida's universities have been given increased administrative and financial autonomy by the Legislature, as illustrated in Appendix B. For example, they have been given local boards of trustees, the flexibility to manage personnel systems, the ability to deposit funds outside the State Treasury, the authority to carry forward year-end balances, the power to develop their own financial management systems rather than being required to use the state's systems, the responsibility of collectively bargaining at the local level, the authority to control their own positions and rate, the ability to expend funds directly from grants-in-aids appropriation categories, and the authority to exercise the right of eminent domain with approval of the State Board of Education. They have also been given the ability to set fees within the limits specified in the General Appropriations Act. In addition, universities have a great deal of flexibility with the programs and services they offer, as discussed in the section entitled "Programs and Services."

Current Challenges in Florida: The State of Florida has been affected by the downturn of the economy that other states throughout the country have felt in recent years. One way for the Legislature to manage available resources has been through budget reductions in various programs. The university system has not been immune to these reductions. At the same time, the universities have had to deal with the demand for increased student enrollment and its impact on instruction, student services, administration, and facilities as the "baby boom echo" generation matures and moves into higher education. Legislative budget reductions and decisions to not provide additional funding for enrollment growth have occurred during the legislative session and in special sessions which are after the universities have admitted students. Universities have indicated the uncertainty associated with the level of funding has made it difficult for enrollment management, placing them in the position of admitting more students than their budgets can be expected to reasonably accommodate.

In addition, while the universities have the ability to set fees within a range authorized in the General Appropriations Act, the Legislature does not always give them the flexibility to increase fees. There have even been times in the past in which increased fees were offset by general revenue reductions, resulting in little, if any, addition to the total funds available to the universities.

Besides the funding challenges mentioned above, universities indicated in response to a CEPRI survey that the current funding formula does not adequately fund the mission of some universities (CEPRI, January 2003). In reality, there is little detail in state statutes that would make clear the mission of each of Florida universities. Section 1001.02(5)(a) directs the State Board of Education to clarify missions:

> The State Board of Education shall adopt a system wide strategic plan that specifies goals and objectives for the state universities and community colleges. In developing this plan, the State Board of Education shall consider the role of individual public and independent institutions within the state. The plan shall provide for the roles of the universities and community colleges to be coordinated to best meet state needs and reflect cost-effective use of state resources. The strategic plan must clarify mission statements and identify degree programs to be offered at each university and community college in accordance with the objectives.

The State Board has not, at this time, adopted a system wide strategic plan that clarifies missions for universities and community colleges. However, since the Board of Governors is constitutionally responsible for defining the distinctive mission of each constituent university, it has begun discussions related to the missions of state universities. Defining the mission will assist in determining appropriate funding levels and approaches.

Study Methodology

The following questions were taken into consideration in assessing the feasibility of multi-year contracts between the state and individual universities:

- What similar arrangements exist between state entities and universities in other states?
- What are the legalities of multi-year contracts in Florida?
- Who should be the parties to the contract?
- What would be the nature of the contract and contracting process?
- What are the services and programs currently provided by each institution?
- What are the desired benefits related to the contracts?
- What impact could tuition-setting authority have on student access?
- What performance expectations and accountability measures should be required and what procedures should be used to collect related data?
- How will the performance measures devised for the contract relate to the performance measures currently in development for K-20 accountability?
- What are the anticipated obstacles and how can they be addressed?
- What penalties should be imposed for non-performance, and what incentives should be provided for high performance?
- What should be the university eligibility requirements for participation in multi-year contracts?
- What is the cost of the contract?
- What other state policies, strategies, and statutes would need to be modified or considered in order to accommodate or facilitate a contract with state universities?

Literature reviews, surveys, legal reviews, and interviews with DOE and Florida university staff, as well as interviews with out-of-state personnel and legal counsel, were utilized in answering the above questions. In addition, in an effort to fully utilize the work being undertaken by DOE, departmental activities were monitored regarding the K-20 Education Performance Accountability project. Legislative staff and staff from the Governor's office were periodically briefed as the study progressed.

Institutional Input: To give the universities an opportunity to share their reasons for being interested in multi-year contracts, the Council invited the five universities originally designated for inclusion in the study (UF, FSU, USF, UCF, and FIU) to participate in a panel discussion in Orlando on July 9, 2003. USF was unable to participate, but the remaining four universities accepted the invitation.

Results of CEPRI's funding survey were reviewed for additional information. On May 28, the presidents of each of the eleven universities were mailed a funding survey to elicit input regarding the advantages and disadvantages of the current funding process, the additional fiscal and administrative flexibility needed to improve efficiency or performance, the institutional and student behaviors that should be rewarded by the state, the performance reward systems currently being implemented, and alternatives to the current funding approach. Five of the universities responded to the survey: UF, FSU, USF, UCF, and FIU.

CEPRI members wanted all public universities to have the opportunity to participate in activities related to the study. All eleven universities were invited to participate in a meeting with CEPRI staff on August 21 to be updated on the study and to give input regarding the contract proposal. Those universities unable to attend the meeting were provided a call-in telephone number to allow their participation through a conference call. Eight universities participated in the meeting (FSU, USF, UCF, FIU, FAU, UNF, FGCU, and NCF), and one university, UWF, submitted written comments subsequent to the meeting.

All eleven universities were given the opportunity to provide staff with written comments by September 19, 2003, regarding CEPRI discussions thus far.

Public Input: Public hearings were held on August 13, 2003, in Fort Myers; September 10, 2003, in Tampa; and October 8, 2003, in Tallahassee. In addition to being placed on CEPRI's web site on October 1 for consideration by the general public, drafts were submitted directly to DOE Division of Colleges and Universities staff, legislative staff, and staff in the Governor's Office for their review. In addition, university personnel were given copies of the draft report to review on October 1 and were invited to provide input at the October 8 meeting.

FEASIBILITY OF MULTI-YEAR CONTRACTS

Case Studies in Other States

Synopsis: A survey and literature review were conducted to determine if there were any institutions in other states that were currently operating under a system similar to the one that had been proposed by UF/FSU.

Discussion: The research led to information from four schools: The University of Delaware, The Colorado School of Mines, St. Mary's College of Maryland, and Pennsylvania State University. While no one particular institution had a multi-year contract such as the one proposed by UF/FSU, each school had specific elements applicable to this study. Summary information is provided in Figure 1 and individual fact sheets are available in Appendix C.

Figure 1

Case Studies in Other States

Institution	Relevant Information to the University Contract Study
University of Delaware (UD)	Complete authority for raising tuition resides in the Board of Trustees. Once tuition is set by the Board of Trustees, it does not require approval by other governing bodies. As a courtesy, the Board of Trustees informs the legislature and the governor when tuition will be increased. No formal multi-year contract exists between the state and the University of Delaware. No additional funds are provided specifically for enrollment growth. In 2002-03 UD received 19.8% of its revenues from state appropriations. All state budgets for 2003-04 were cut by 3%. Soon after that announcement, the UD Board of Trustees announced that tuition would be increasing. Tuition at UD increased for the 2003-04 academic year by 9.8%. (University of Delaware, 1989, 2003)

Colorado School of Mines (CSM)	Colorado statutes allow CSM to operate using a performance contract which includes budget flexibility. The contract is between CSM's Board of Trustees and the Commission on Higher Education. Statutes require that the contract be approved by the Legislature and that it be in effect until June 30, 2011. A Block Grant is provided to support resident students and is based on enrollment and inflation; enrollment must increase at least 2% to receive an enrollment block grant. While the statutes indicate that the Board of Trustees has the authority to set tuition, any recommended increase must be approved by the Legislature via budget authority provided in the appropriations bill. The Board of Trustees cannot recommend an increase in tuition more than two times the Denver Consumer Price Index (CPI). (Colorado Commission on Higher Education, 2003)
St. Mary's College of Maryland	While there is no contract, Legislation allows St. Mary's to function as an autonomous unit. The Governor is required to request the prior year's budget, plus inflation, but the Legislature is not bound by that request. Beginning in 2002-03, the Board of Trustees adopted a tiered-tuition system where freshman are charged more than sophomore, juniors and seniors. There is no requirement that financial aid be linked to tuition increases. However, St. Mary's allocates a percentage of the tuition increase for financial aid to need-based students. No additional funding for enrollment growth is provided, although enrollment has grown almost 20% since the contract has been in effect. (St. Mary's College of Maryland, 2003)

Pennsylvania State University	Penn State is one of four "state-related" universities (along with the University of Pittsburgh, Temple University, and Lincoln University), institutions that are not state-owned and -operated but that have the character of public universities and receive substantial state appropriations. While there is no contract, there is legislation appropriating funds and specifying annual reporting requirements. Although the University is privately chartered by the Commonwealth, it was from the outset considered an "instrumentality of the state," that is, it carries out many of the functions of a public institution and promotes the general welfare of the citizenry. The legislature has made regular appropriations in support of the University since 1887. Penn State sets the tuition levels for all its campuses. Tuition rates vary among the 24 campuses, with University Park charging the highest for undergraduates. Higher rates also apply for upper division students – students who have accumulated 60 or more credits. **Penn State is not guaranteed funding for enrollment growth**. Even though Penn State is "state-related" it is not shielded from budget cuts. In 2002-03, Penn State and the other three state-related institutions had a mid-year budget cut, but the public universities did not. Penn State also had a 3% cut in 2001-02. In 2001-02 62% of the General Funds came from Tuition and fees. (Penn State University, 2003)

Legalities of Multi-Year Contracts in Florida

Synopsis: A fundamental question researched was whether it is legal to have a multi-year contract with Florida's Legislature. Statutory language, court cases, and constitutional language were reviewed to locate citations relevant to the feasibility of multi-year contracts

Discussion: The review resulted in four basic conclusions: (1) One legislature can not bind a future legislature; (2) Due to the separation of powers, the executive branch can not bind the legislature in funding executive agreements; (3) Any contracts requiring annual appropriations must include a statement making payment contingent upon an annual appropriation by the Legislature; and (4) The Legislature can not be required to provide annual funding unless the constitution includes such a provision. The citations leading to those conclusions are described below:

Binding a future legislature: While several court cases could be cited related to the concept of binding the legislature in multi-year contracts, *("Ware v. Seminole County et al 38 So. 2d 432," Fla.*

1949) included statements that were direct, easy-to-understand – and were made by the Florida Supreme Court. In affirming part of the judgment, the Court specified that, "To hold otherwise would mean that one legislature could bind a future legislature and interfere with the exercise of its orderly functions." Note, however, that Section 1009.98, F.S. requires that, "The Legislature shall appropriate to the Florida Prepaid College Trust Fund the amount necessary to meet the obligations of the board to qualified beneficiaries." In this provision, the usually mandatory word "shall" must be considered as precatory rather than mandatory in light of the constitutional principle stated in the *Ware* case and further supported by *("Rodriguez v. Superintendent, Bay State Correctional Center,," 1998)*.[1]

<u>Separation of Powers</u>: In ("Florida Police Benevolent Association v. State,," 2002) the District Court of Appeals concluded that: "Plaintiff would have this Court declare, in effect, that the Governor's negotiations bind the legislature….Plaintiff cannot state a cause of action requiring legislative funding of an executive negotiation without offending the separation of powers doctrine."

<u>Funding Contingency</u>: Florida statutes require that any contract entered into by public officers or employees of the executive branch must include a specified "contingency" statement as indicated below, if the contract requires an annual appropriation:

> Section 287.0582, F.S. Contracts which require annual appropriation; contingency statement.--No executive branch public officer or employee shall enter into any contract on behalf of the state, which contract binds the state or its executive agencies for the purchase of services or tangible personal property for a period in excess of 1 fiscal year, unless the following statement is included in the contract: "The State of Florida's performance and obligation to pay under this contract is contingent upon an annual appropriation by the Legislature."

<u>Constitutional provisions</u>: The Florida constitution does provide for multi-year funding commitments in one situation – paying the principal and interest on any bonds authorized pursuant to the constitution. For example, Article XII, Section 9, of the state constitution specifies that funds in the Public Education Capital Outlay and Debt Service Trust Fund (PECO) shall be used in each fiscal year for specified purposes and in a certain priority order. The first priority for use is "[f]or the payment of the principal of and interest on any bonds due in such fiscal year." Thus, it would appear that the Legislature can not be required to provide annual funding unless the constitution includes such a provision.

Parties to the Contract

<u>Synopsis</u>: When UF and FSU first proposed the use of a 5-year contract, it was with the assumption that the contract would be between the Legislature and the universities. However, the proviso language in the General Appropriations Act directing CEPRI to conduct the study did not specify the Legislature as one of the parties. Instead, proviso indicated the contract would be between the State of Florida and each of the universities. Using the broader term

[1] Cf., *Rodriguez v. Superintendent, Bay State Correctional Center,* 139 F. 3d 270, 272 (1st Cir. 1998) where the court interpreted "shall" to be only precatory where Congress specified a 30 day time limit within which the federal appellate courts should rule on successive habeas corpus petitions.

"State," rather than the term "Legislature," allowed CEPRI to consider other options that may be more appropriate than the one contained in the original UF/FSU proposal.[2]

<u>Discussion</u>: One of the primary questions regarding multi-year contracts is, "With what party should the university be contracting?" Discussed below are various options.

<u>Legislature</u>: In the previous section regarding the legalities of multi-year contracts, citations were given that establish the fact that one legislature can not bind a future legislature, nor can a contract signed by the executive branch bind a legislature. If a contract is signed that requires an annual appropriation, a funding contingency statement must be included, specifying that payment is contingent upon an annual appropriation by the Legislature. The only way to direct the Legislature to provide annual funding is to have such language in the constitution. It appears that, without such constitutional language, having the Legislature be a party to the contract would not be appropriate.

2. <u>Governor:</u> There are precedents for governors making funding commitments related to the education system. For example, in 1998, Governor Chiles, via a letter written on June 11, 1998, committed to the federal Office for Civil Rights (OCR) that he would recommend to the Legislature that it fund a total of $7.5 million over a three-year period to assist FAMU in improving programs discussed in the *Florida/United State Office for Civil Rights Partnership Report and Commitments (Office of the Governor of Florida, 1998).* In addition, in the material presented to CEPRI at its July 2003 meeting related to contractual efforts in other states, it was revealed that the Maryland legislature placed in statute the requirement that the Governor annually request for St. Mary's College its prior year's budget, plus inflation. Having the Governor of Florida sign the university contract may be an option that is feasible, but may not be the best one to recommend.

As described above, court cases have made it clear that, due to the separation of powers, the Governor's agreements can not bind the Legislature. While the Governor could not bind the Legislature, he could agree to include in his annual Legislative Budget Recommendations a recommendation to fund the university contracts.

However, it seems that recommending that the Governor of Florida sign the contract may remove his flexibility in making his budget recommendations. Section 216.165, F.S., requires the Governor to submit a balanced budget. In other words, it requires his budget recommendations to be within the level of revenue being recommending for the subsequent fiscal year. In order to develop a balanced budget, the Governor must weigh competing needs throughout the state, taking into consideration the recommendations of state agencies and advisory groups. While having the Governor's signature on the contract is one option, it may unduly restrict him in developing his budget recommendations.

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[2] Executive branch public officers and employees may enter into contracts on behalf of the state. Section 287.0582, F.S., provides that they can not enter into a contract that binds the state or its executive agencies in excess of 1 fiscal year, unless the following statement is included in the contract: "The State of Florida's performance and obligation to pay under this contract is contingent upon an annual appropriation by the Legislature."

3. State Board of Education: Article IX, Section 2, of the State Constitution establishes the State Board of Education (SBE) and gives it the authority to supervise the system of free public education as provided by law. Section 1001.02, F.S., charges the State Board of Education with the responsibility of being "the chief implementing and coordinating body of public education in Florida." The SBE is also directed to "focus on high-level policy decisions." Because of its responsibility related to K-20 education, it may be appropriate for the SBE to periodically be briefed on the implementation of the contract, but its focus on high-level policy decisions could make it an inappropriate choice for signing an operational contract with a university.

4. Board of Governors: Article IX, Section 7, of the State Constitution establishes the Board of Governors as the board that operates, regulates, controls, and is fully responsible for the management of the whole university system. Because of these constitutional responsibilities, the Board of Governors would be the appropriate entity to enter into a contract with each university.

As stated above, the contract could not guarantee a certain level of appropriations annually, but it could create a process by which flexibility, funding expectations, and performance goals could be accomplished. Article IX, Section 7, of the Constitution gives the Board of Governors the responsibility for defining "the distinctive mission of each constituent university and its articulation with free public schools and community colleges, ensuring the well-planned coordination and operation of the system, and avoiding wasteful duplication of facilities or programs." Contract negotiations would provide an opportunity for the Board of Governors and a university to define expectations for the university's performance, based on its unique mission. As discussed later in the report, the contract would also be a mechanism to provide a direct link between a university's performance and its ability to have tuition flexibility, thereby closing the gap between mission, performance, and funding.

Recommendation:

1. Because of its constitutional responsibilities, the contract should be between the Board of Governors and the university Board of Trustees.

Process for Contracting

Synopsis: If the contract were to be between the Board of Governors and the university, what would be the process for developing, negotiating, signing, and monitoring its implementation? What would be the Legislature's role?

Discussion: As reflected in Figure 2, there is a unique role for each of the major players in the process – the universities, the Board of Governors, the Legislature, the Governor, and CEPRI. In fact, for performance funding contracts to work, there must be active support from each of these players, as well as from the Governor. As stated in *Funding Public Colleges and Universities for Performance*:

> Whatever the reasons or methods, all programs in performance funding and performance budgeting require continuing support from state, coordinating system, and campus leaders. State officials can mandate and prescribe the program, but the

> initiatives cannot succeed without the cooperation of coordinating and system leaders who monitor the policies, and of faculty and administrators who produce the results. Coordinating and system officials can voluntarily initiate either program, but only governors and legislators can supply the funding (Burke, 2002).

The process will begin on November 1, 2003, when CEPRI's report is due to the Legislature and Governor. After reviewing the report and its recommendations, the Board of Governors should take a pro-active role in proposing a process to recommend to the Legislature for contract development, adoption, implementation, and monitoring. In order to be considered by the 2004 Legislature, the Board needs to submit its recommendations by January 1, 2004.

If the Legislature supports the contract process, it should then statutorily establish the overall framework within which a contract could be signed and implemented. By statutorily establishing the process, the Legislature would be reflecting its support of multi-year contractual arrangements between the Board of Governors and individual universities. By signing the legislation creating this framework, the Governor would be reflecting his support of such contractual arrangements.

Based on the legislative framework, the Board should then specify, either through rules or guidelines, the details of the process for contract negotiations, approval, and monitoring. To allow universities time to develop their proposals, the Board should adopt this process no later than June 1, 2004.

CEPRI, meanwhile, should be developing criteria to assist the Board of Governors in evaluating university proposals. The criteria should be developed no later than June 1, 2004, to assist universities in crafting their proposals, as well as to assist the Board in evaluating them.

While the contracting process should be open to all universities, no university should attempt to begin the negotiations process with the Board of Governors prior to developing a proposal that would include specific objectives, tuition flexibility policies, performance measures and standards, and implementation plans.

The Board of Governors and the university would then negotiate and sign the contract. To keep the contract in line with the state fiscal year, implementation of the contract would begin July 1 of the fiscal year following the signing of the contract.

Since the concept of contractual relationships between the Board and the universities is new, it is important that the impact be closely monitored. The Board of Governors should submit to the Governor and the Legislature, by December 1 of each year, reports regarding the effects of contracts during the prior fiscal year. During the fiscal year, though, there should be open communication and feedback between the Board and the university so that problems can be resolved as they arise.

CEPRI, as an independent entity, should evaluate the process and the contract's impact on students after the first two years of contract implementation. Such an independent review should include input from state policymakers, educators, students, and the general public.

Recommendations:

Role of the Board of Governors

2. The Board of Governors should take a pro-active role regarding contracting with individual universities, recommending to the Legislature objectives, criteria, and an overall process for contract development, adoption, implementation, and monitoring, by January 1, 2004. After the Legislature has established the framework for contracting, the Board should develop rules or guidelines for the process, negotiate contracts with individual universities, monitor implementation, and submit annual reports to the Governor and Legislature.

Role of the Legislature

3. While taking CEPRI's and the Board of Governors' recommendations into consideration, the Legislature should statutorily create the overall framework within which contracts could be developed, thereby reflecting its support of the concept.

Role of the Governor

4. The Governor should signify his support of contracts by signing the legislation that creates the framework within which they could be developed.

Role of CEPRI

5. After submitting the report and recommendations required by the 2003 Legislature, CEPRI should develop criteria for evaluating university proposals. In addition, CEPRI, as an independent entity, should evaluate the process and the contract's impact on students and the university after the first two years of contract implementation. Such an independent review should include input from state policymakers, educators, students, and the general public.

Role of the University

6. All state universities should participate in the contracting process. Prior to beginning the negotiations process with the Board of Governors, each university should develop a proposal that would include specific objectives, tuition flexibility policies, performance measures and standards, and implementation plans.

Figure 2

PROCESS FOR UNIVERSITY CONTRACTING

CEPRI

Submit to the Governor and Legislature a report and recommendations, including a draft contract, by November 1, 2003.

Board of Governors

Recommend to the Legislature objectives, criteria, and overall process for contract development, adoption, implementation, and monitoring, by January 1, 2004.

Legislature

Statutorily (through proviso, implementing bill, or Florida statutes) create objectives, criteria, and overall process for contract development, adoption, implementation, and monitoring by end of 2004 Legislative Session.

Governor

Approve legislation creating process for contracting

Board of Governors

Based on statutory requirements, develop process for contract negotiations, approval and monitoring by June 1, 2004.

CEPRI:

Develop criteria for evaluating university proposals, including accountability measures.

Universities

Prior to beginning negotiations process with the Board of Governors, develop proposal, including specific objectives, performance measures and standards, and implementation plans.

Board of Governors and Universities

Negotiate and sign contract.

Implement contract beginning July 1 of fiscal year following signing of the contract.

Board to submit annual reports to Governor and Legislature by December 1 (the report would cover the implementation of the contract during the prior fiscal year)

CEPRI

Review impact of contract two years after it is initially signed.

STRUCTURE OF THE CONTRACT TEMPLATE

Proviso in the FY 2003-04 General Appropriations Act directed CEPRI to include a draft contract in its report on the feasibility of 5-year contracts. Figure 3 reflects the draft contract. The contract, entitled "Performance Funding Contract for University Services" has been developed as a template that would be applicable to any university. Figure 4 reflects the template for the Contract Specifications, which is an attachment to and a part of the contract, and is designed to reflect performance and fiscal expectations that will vary among universities.

Parties

During the course of its study, CEPRI realized that the concept being proposed by the University of Florida and Florida State University could be expanded to provide a cohesive plan for the state university system. Expanding the concept would provide an opportunity to define the mission of each university within the framework of a seamless K-20 system. The contractual approach described in this report would ensure that regional and state priorities were being met. A successful systemic approach, however, would require participation by all universities in the contractual process. For this reason, CEPRI recommends that the Board of Governors negotiate a contract with each university.

No university should attempt to begin the negotiations process with the Board of Governors prior to developing a proposal that would include specific objectives, tuition flexibility policies, performance measures and standards, and implementation plans. Thus, while all universities should be required to participate, each university will need to show that it is ready to manage the flexibility it will be given. Recommendation 6, as reflected in the previous section, is repeated as follows:

Recommendation:

6. All state universities should participate in the contracting process. Prior to beginning the negotiations process with the Board of Governors, each university should develop a proposal that would include specific objectives, tuition flexibility policies, performance measures and standards, and implementation plans.

Scope of Services

As mentioned above, the Contract Specifications would be attached to, and a part of, the Contract. The Specifications would vary by university and would reflect the unique mission of the contracting institution. Details regarding the Specifications begin on page 49.

Recommendation:

7. The details negotiated in the Contract Specifications should reflect the unique mission of the contracting university.

Consideration

This section of a contract reflects the payment that is to be received for services rendered. In this contract, in return for the university meeting certain performance requirements, payment would consist of two items: (1) an amount of funds to be requested of the Legislature by the Board of Governors and (2) tuition flexibility. Details related to these two items are discussed in the "Access/Tuition/Financial Aid" and "Fiscal Specifications" sections of this report.

Recommendation:

8. As consideration for services rendered by the University pursuant to this contract, the Board of Governors should agree to request the amount of state funds as specified in the Contract Specifications and permit tuition flexibility as authorized by the Legislature and specified in the attached Contract Specifications.

Point of Contact

The Contract Manager is the staff who would be responsible for overseeing the implementation of the contract. For the Board of Governors, the Chancellor or his/her designee would be the appropriate staff to designate for this responsibility. The Chancellor is the Commissioner's appointee to head the Department of Education's Division of Colleges and Universities. The Chancellor also is the lead staff for the Board of Governors.

Section 1001.75, F.S., establishes the university president as the chief executive officer of the university and specifies that the president is responsible for the operation and administration of the university. For overseeing the implementation of the contract, the university's Contract Manager should be the president or his/her designee.

Recommendation:

9. For the Board of Governors, the Contract Manager responsible for overseeing the implementation of the contract should be the Chancellor or his/her designee. For the university, the Contract Manager should be the president or his/her designee.

Cancellation

The Council felt that either party should be able to cancel the contract upon written notification. The dilemma was in determining the notice period. It should be long enough to be fair to the other party, and it should be on track with the budget cycle. A one-year notice period was considered, but that meant that if the written notification were delivered to the Contract Manager in August, the parties would have to function for almost two years under the contract before it would be cancelled. Therefore, having a bifurcated notice period seemed more appropriate: if notice of cancellation is given on or between July 1 and December 31, the cancellation would be effective on June 30 of that fiscal year. If cancellation is given on or between January 1 and June 30, the cancellation would be effective at the end of the subsequent fiscal year.

Recommendation:

10. Either party should be able to cancel the contract upon written notification to the other party's Contract Manager. If notice of cancellation is given on or between July 1 and December 31, the cancellation should be effective at the end of the State of Florida fiscal year in which the notice is given. In the event notice is given on or between January 1 and June 30, the cancellation should be effective at the end of the subsequent fiscal year.

Term of Contract

The contract needs to specify the period for which it will be effective. The proviso in the General Appropriations Act directed that CEPRI study the feasibility of a 5-year contract, but it did not limit CEPRI to recommending only a five-year contract. Other lengths were considered. For example, the Colorado School of Mines has a ten-year contract with Colorado's Commission on Higher Education. Since the concept of contracting is new in Florida, though, a time period shorter than five years, such as three years, would be preferable to a five-year contract. It would increase the likelihood of those legislative members who approved funding for the first year of the contract still being in the legislature to ensure funding in future years. This would give the universities the predictability they sought through a contractual arrangement. In addition, CEPRI felt that the three-year contract should be extended each year unless it was cancelled, and that the contract should coincide with the state fiscal year. As recommended above, CEPRI would be reviewing the contract's implementation after two years, giving both parties the information they needed in time to determine whether a contract should be extended after the third year.

Recommendation:

11. A contract should become effective July 1 of the fiscal year subsequent to its execution by the parties and shall continue in force for a period of three years. By mutual agreement of the parties, the contract should thereafter be extended for additional one year periods.

Faithful Performance of Contract

This is standard "boiler-plate" contractual language. In this section of the contract, the university would agree that its performance of other services would not interfere with its performance under this contract.

Recommendation:

12. The University should agree that its performance of any other services during the term of this contract shall not interfere with the faithful and timely performance of this contract.

Force Majeure

This section of the contract contains standard language, as well. In essence, if something unforeseen, and out of either party's control, happens, causing either party to not meet its performance expectations, the contract can be cancelled without liability.

Recommendation:

13. Either party's performance under this agreement is subject to acts of God, war (declared or undeclared), Federal government regulation, terrorism, disaster, strikes, civil disorder, curtailment of transportation facilities, or similar occurrence beyond the party's control, making it impossible, illegal, or impracticable for one or both parties to perform its obligations under this agreement, in whole or in part. Either party may terminate this agreement without liability for any one or more of such reasons upon written notice to the other party within 10 days of such occurrence or receipt of notice of any of the above occurrences.

Resolution of Disputes

During the time the contract is in effect, it is reasonable to assume that questions may arise as to the meaning or interpretation of any part of the contract. The contract needs to specify the process that would be used to resolve any such disputes.

The parties should be encouraged to settle their disputes amicably. As stated above, cancellation is always an option upon written notification; however, it should not be the automatic default when a dispute arises. Renegotiation is an option that is not mentioned in the contract because renegotiation is inherent in any contract. In addition to cancellation and renegotiation, disputes could be settled through mediation, either using rules of the American Arbitration Association or those of another organization agreed upon by the parties.

Recommendation:

14. The parties to the contract should have three options for resolving disputes: renegotiation, mediation, and cancellation.

Entire Contract

This section contains standard contractual language, specifying that the contract can not be changed except in writing by the signature of both parties.

Recommendation:

15. The parties should not be able to change the contract, except in writing by the signature of both parties.

Execution by the Parties

Who should be the signatories of the contract? It would be fitting for the chairman of the Board of Governors to sign the contract on behalf of, and after approval by, the Board.

Section 1001.74, F.S., provides that the university's Board of Trustees is responsible for:

> …cost-effective policy decisions appropriate to the university's mission, the implementation and maintenance of high quality education programs within law and rules of the State Board of Education, the measurement of performance, the reporting of information, and the provision of input regarding state policy, budgeting, and education standards.

Because of the Board of Trustees' responsibilities, it is necessary to have its approval of the contract. It would be appropriate, then, for the chair of the Board to sign the contract on behalf of, and after approval by, the university Board of Trustees.

Recommendations:

16. The chairman of the Board of Governors should sign the contract on behalf of, and after approval by, the Board of Governors.

17. The chairman of the university Board of Trustees should sign the contract on behalf of, and after approval by, the Board of Trustees.

Figure 3

Performance Funding Contract for University Services

Parties
This contract is entered into by the Board of Governors and the _____________ (Insert name of university —*"University"* will be used for purposes of this draft).

Scope of Services
The *University* shall perform all of the services as defined in the attached Contract Specifications.

Consideration
As consideration for services rendered by the *University* pursuant to this contract, the Board of Governors agrees to request the amount of state funds as specified in the attached Contract Specifications and permit tuition flexibility as authorized by the Legislature and specified in the attached Contract Specifications. The performance of the Board of Governors under the terms of this contract is subject to and contingent upon the availability of funds appropriated to the Board of Governors and applicable for the purposes of this contract.

Point of Contact
The contract manager on behalf of the Board of Governors will be the Chancellor or his/her designee. The contact on behalf of the *University* will be the university president or his/her designee.

Cancellation
This contract may be cancelled by either party upon written notice to the other party delivered to the contract manager. If notice of cancellation is given on or between July 1 and December 31, the cancellation shall be effective at the end of the State of Florida fiscal year in which the notice is given. In the event notice is given on or between January 1 and June 30, the cancellation shall be effective at the end of the State of Florida fiscal year following the fiscal year in which the notice was given.

Term of Contract
This contract shall become effective July 1 of the fiscal year subsequent to the execution by the parties and shall continue in force for a period of three years. By mutual agreement of the parties, the contract may thereafter be extended for additional one year periods.

Faithful Performance of Contract
The *University* agrees that its performance of any other services during the term of this contract shall not interfere with the faithful and timely performance of this contract.

Force Majeure
Either party's performance under this agreement is subject to acts of God, war (declared or undeclared), Federal government regulation, terrorism, disaster, strikes, civil disorder, curtailment of transportation facilities, or similar occurrence beyond the party's control, making

it impossible, illegal, or impracticable for one or both parties to perform its obligations under this agreement, in whole or in part. Either party may terminate this agreement without liability for any one or more of such reasons upon written notice to the other party within 10 days of such occurrence or receipt of notice of any of the above occurrences.

Resolution of Disputes
Any dispute between the Board of Governors and the *University* as to the application, meaning, or interpretation of any part of this contract shall be resolved as follows: Initially, the parties shall use their best efforts to resolve their dispute through mediation administered by the American Arbitration Association [or other similar organization].

Entire Contract
This contract cannot be changed except in writing by the signature of both parties.

Execution by the Parties

Board of Governors:

____
Chair, Board of Governors

Date: ______________________

University:

____
Chair, Board of Trustees

Date: _____________________

Figure 4

Template for Contract Specifications

Background:
Over the past several years, Florida's universities have been given increased autonomy by the Legislature. For example, they have been given local boards of trustees, the flexibility to manage personnel systems, the ability to deposit funds outside the State Treasury, the authority to carry forward year-end balances, the responsibility of collectively bargaining at the local level, the authority to control their own positions and rate, the ability to expend funds directly from grants-in-aids appropriation categories, the power to develop their own financial management systems rather than being required to use the state's systems, and the authority to exercise the right of eminent domain with approval of the State Board of Education. They have also been given the ability to set fees within the amount authorized in the General Appropriations Act.

Problem Statement:
The State of Florida has been affected by the downturn of the economy that other states throughout the country have felt in recent years. One way for the Legislature to manage available resources has been through budget reductions in various programs. The university system has not been immune to these reductions. At the same time, the universities have had to deal with the demand for increased student enrollment and its impact on instruction, student services, administration, and facilities as the "baby boom echo" generation matures and moves into higher education. Legislative budget reductions and decisions to not provide additional funding for enrollment growth have occurred during the legislative session and in special sessions after the universities have admitted students. Universities have indicated that the uncertainty associated with the level of funding has made it difficult for enrollment management, placing them in the position of admitting more students than their budgets can be expected to reasonably accommodate.

While the universities have the ability to set fees within a range authorized in the General Appropriations Act, the Legislature does not always give them the flexibility to increase fees. In addition, there have been times in the past in which increased fees were offset through general revenue fund shifts. In other words, general revenue appropriations to the universities were reduced by the same amount as the increase in revenue anticipated from fee increases.

Overview of the Proposed Outcome:

The *University* will be given additional flexibility while meeting specified performance expectations and standards.

Fiscal Specifications:

<u>Base Appropriations and Funding Increases:</u>

The Board of Governors will request sufficient funds to enable the *University* to meet its performance standards.

(NOTE: See p.35 for discussion related to this item.)

The Board of Governors will request each year the following funds for FTE growth by level:

(NOTE: See p.37 for discussion related to this item.)

<u>Tuition and Out-of-State Fee Flexibility:</u>

The Board of Trustees of the *University* may set tuition and out-of-state fee rates at the full discretion of the board, contingent upon policies for tuition and Bright Futures being aligned.

(NOTE: See p.39 for discussion related to this item.)

Performance Expectations:

The *University* will continue to maintain its accreditation by the Southern Association of Colleges and Schools.

(NOTE: See p.70 for discussion related to this item.)

The *University* will use the following mechanisms to ensure that sufficient feedback is being received from students and employers to assist in determining institutional quality:

(NOTE: See p.69 for discussion related to this item.)

In order to help meet the state's four goals for K-20 as specified in s. 1008.31(3)I, F.S., the *University* will meet the standards for the following performance measures:

(NOTE: See p.49 for discussion related to this item.)

Incentives and Penalties Relating to the Meeting of Performance Standards:

1. If the following critical performance standards are met, the *University* will continue to have the tuition flexibility stated above:

(NOTE: See p.75 for discussion related to this item.)

2. If any performance standards are not met, the *University* will submit to the Board of Governors its plans for improving its performance on those measures.

(NOTE: See p.75 for discussion related to this item.)

3. If the performance standards for any critical measures are not met in one year, then the *University* will lose its ability to increase tuition and out-of-state fees until its performance has met those standards.

NOTE: See p.75 for discussions related to this item.)

Data Collection:

The *University* will maintain data and records in accordance with ss. 1001.74(16), 1001.75(17), 1008.31(4) F.S., and other applicable laws and regulations.

(NOTE: See p.77 for discussion of this issue.)

Governance and Oversight:

Governance, administration and oversight of the *University* will be as specified in Florida law and administrative rules.

FISCAL SPECIFICATIONS

Operating Funds

Background

> SREB states and states across the nation are grappling with what has been described as the most serious fiscal situation since World War II. No state has been able to balance its budget easily with revenues expected.… Citizens will feel the impact of fee increases in many states. Colleges and universities are reporting tuition increases that are higher than in years past and other college and university fees also are being raised. Purchases of prepaid tuition contracts have been suspended in at least two states… (Southern Regional Education Board, June 2003).

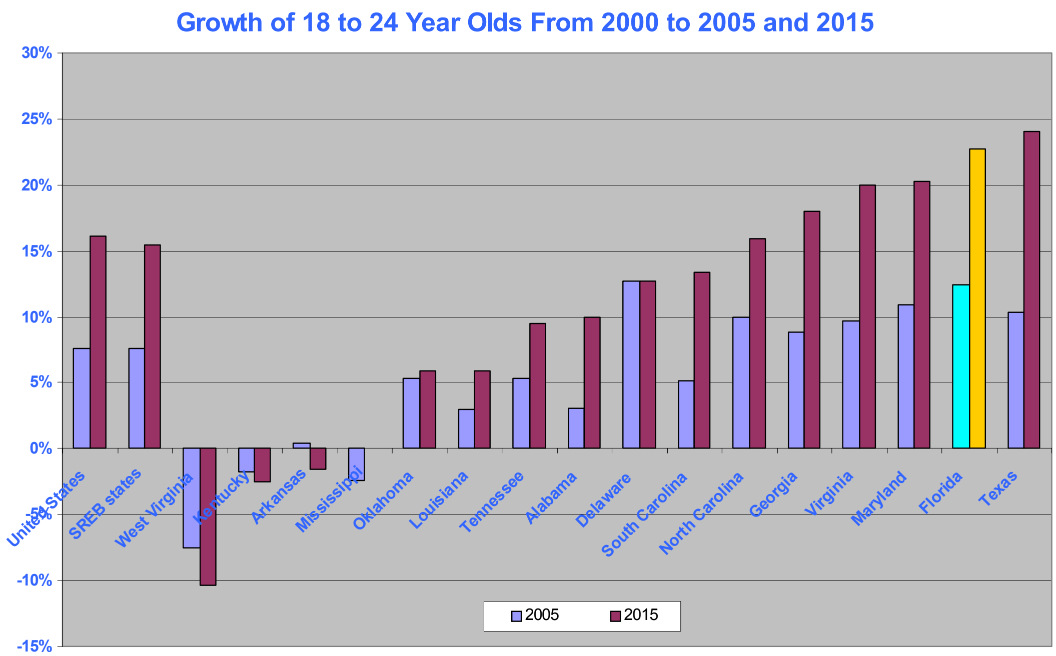
The economic down turn of recent years has already had a serious impact on funding for state-supported higher education. A recent article in the *Chronicle of Higher Education* (Davies, 2003) painted a bleak future for state funded programs:

> Governors and state legislators face damaged economies, drop-dead resistance from voters to tax increases, and huge demands for additional spending for Medicaid, homeland security, and elementary and secondary schools. They will have to contend with collective revenue shortfalls as high as $85-billion in the fiscal year that begins July 1. In fact, they will have to deal with enormous economic problems for the rest of the decade. Dennis Jones, president of the National Center for Higher Education Management Systems, recently said that "even if states experience normal economic growth over the next eight years, all but a handful ... will find it impossible, given their existing tax policies, to continue funding their current level of public services."
>
> Washington will not help because of massive federal deficits, impending tax cuts, and pressing obligations including the costs of war, security, health care, and the No Child Left Behind legislation. Thus, <u>the recovery from this recession may not include higher education as it did in the early 1970s, '80s, and '90s</u>.

In budgets adopted for the 2002-3 fiscal year, state appropriations for higher education declined by .8% (State Higher Education Executive Officers, 2003) from the 2001-02 year providing the first reduction since the 1992-3 fiscal year, which saw a 0.9-percent drop. The preliminary estimate for 2003-04 is for a 4% reduction in funding, although many legislatures are already planning to meet to revise initial budgets (State Higher Education Executive Officers, 2003).

While Florida has not experienced the severe funding reductions of some states, it has also experienced much faster growth in the college age population. Between FY 1996 and 2000, Florida First Time in College (FTIC) student FTE grew 42%. The college age population is projected to increase over the near future in Florida at a rate far above the national and regional average (Figure 5). The number of 18 to 24 year olds will increase and, at the same time, the recent trend of the percentage of young people going on to higher education rather than to work is growing (Figure 6).

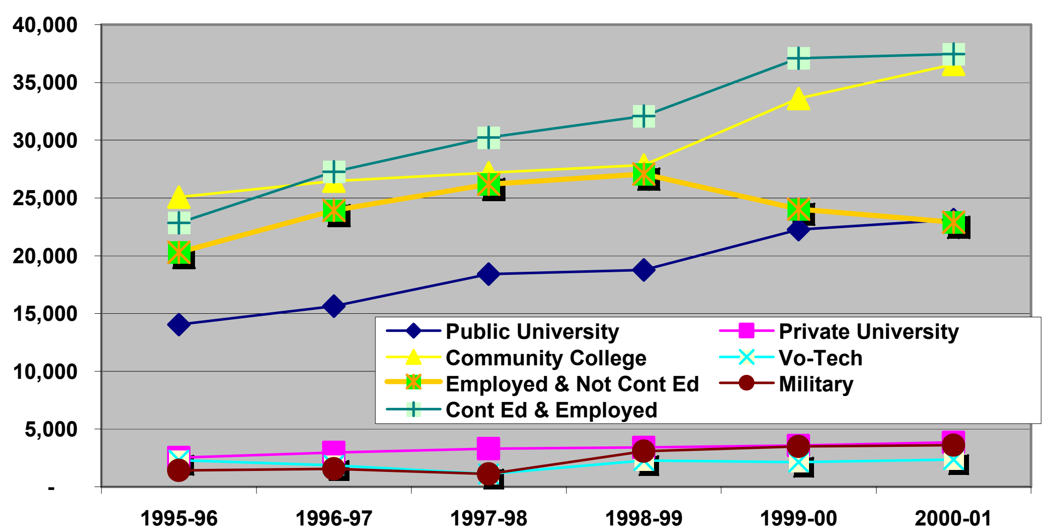
Figure 5



Source U.S. Bureau of the Census: "Population Estimates for the U.S., Regions and States, by Selected Age Groups and Sex: Annual Time Series, July 1, 1990, to July 1, 1999," ST-99-9 (2000); and "Projections of the Population, by Age and Sex, of States: 1995 to 2025," P25-113 (1997) -- (www.census.gov).

Figure 6

Where Are Students the Year After High School Graduation



Source: (Florida Education and Training Placement Information Program, 2003)

Contract Proposed by UF/FSU

The proposal by UF/FSU would stabilize funding for these two universities by reaching an agreement with the Legislature that would provide a firm commitment for funding over a 5 year period. Specific components of the proposal included:

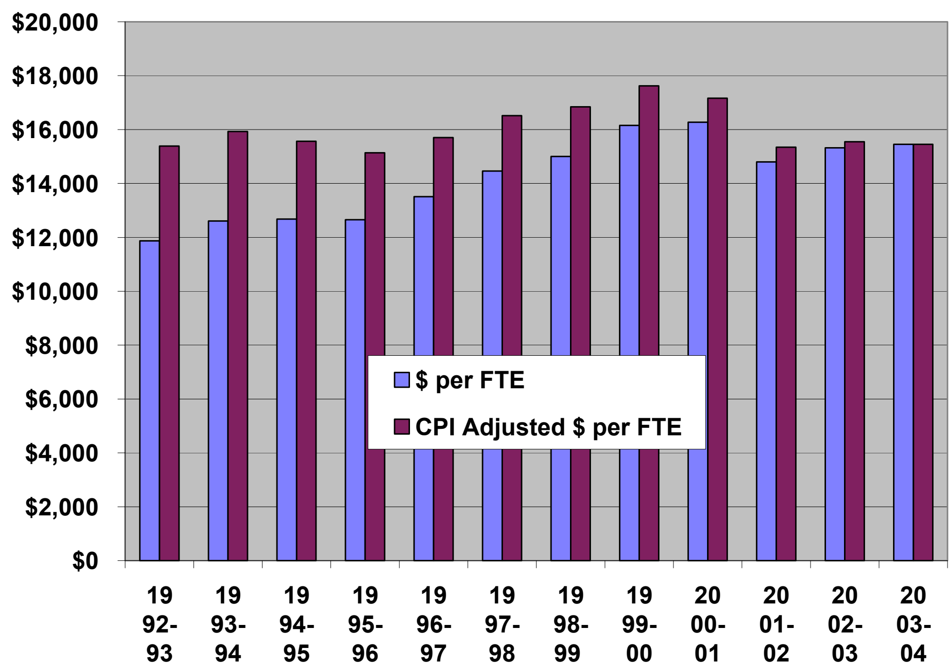
1. Restoration of funding reductions.
2. Funding enrollment growth at a constant rate per FTE for each of two levels of enrollment, undergraduate and graduate.
3. Funding for continuation costs based on the Higher Education Price Index.
4. Giving Boards of Trustees the authority to set tuition.

A multi-year commitment from the Legislature for funding, discussed on pages 18-19 was determined by CEPRI to not be feasible. On the other hand, the following discussion examines some alternatives for improving university funding that may be feasible.

Enrollment Growth Funding

While Florida's total funding for state universities has not been impacted as dramatically as many states, the growth in enrollment combined with fiscal limitations has resulted in instability and reductions in funding per FTE. As an example, the Figure 7 shows the decline in funding per FTE provided to the system from state general revenue, tuition and out-of-state fees, and the lottery. The figure shows both constant and current dollar funding per FTE. It should be noted, however, that declines in funding per FTE are not unusual during periods of financial shortfall (note the level of funding during the recession of the early 90's).

Figure 7
Recent History of Current and CPI Adjusted Total Funding per FTE

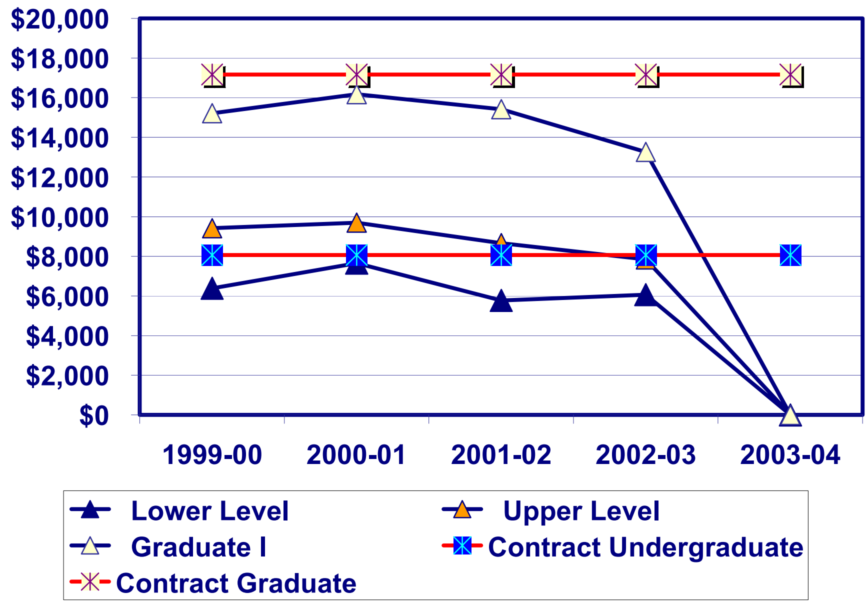


Source: Department of Education Data Request

In order to determine the cost of the contract proposed by UF and FSU, those two universities were requested by CEPRI to simulate the funding they would have received over the past five years if they had been funded through the contract proposal. Appendix D shows their response to this request. Figure 8 compares the actual funding for enrollment growth at FSU (lines with triangles) to the proposed funding under the contract (lines with boxes and stars).

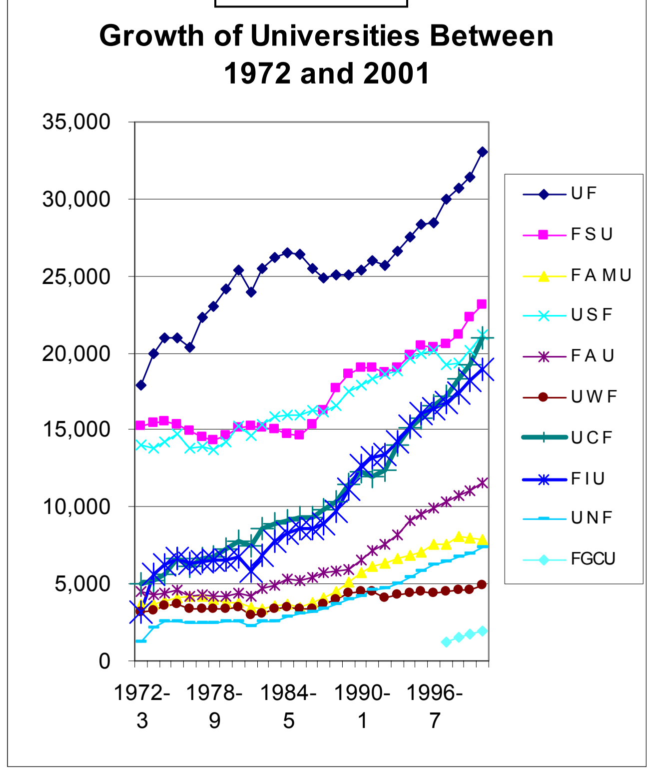
Figure 8

History of FSU Funding per FTE for Enrollment Growth Compared to UF/FSU's Proposed Contract



Source: Florida State University, personal communication, September 2003

Figure 9

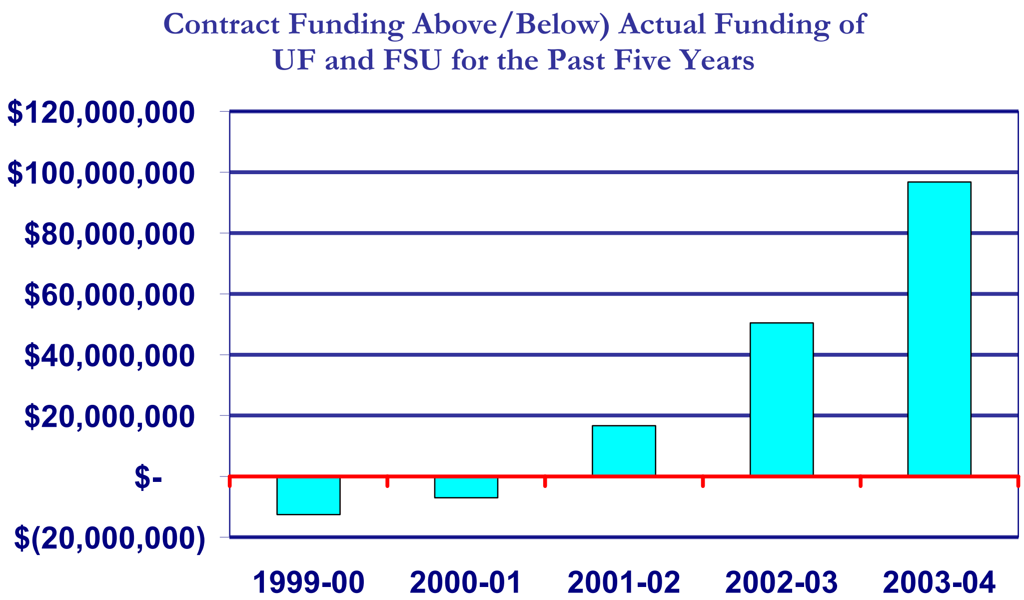


In the January 2003 CEPRI study, *Equity of University Funding*, it was noted that a contributor to the need for over $50 million in equity funding for the State University System has been the instability in the funding of enrollment growth. The funding for growth is constrained by the dollars available to the Appropriations Committees of the Legislature in any given year so the amount provided for an FTE at a given level varies from year to year (Figure 7). The growth of universities is also uneven, as shown in Figure 9.

The unstable relationship between funding and growth has contributed to university funding becoming disequalized over time. An alternative to the current approach would be establish a constant level of funding per FTE, as UF and FSU have requested, and, when finances are constrained, only credit as funded the amount of growth that can be funded within available resources. Unfunded enrollment could then be funded when financial conditions improve. While this is less than the predictability and stability on funding that the universities requested, it would place growth funding on an orderly basis. With the amount of enrollment growth predicted for Florida, this could be an important provision.

Figure 10 reflects the difference between the contract funding and actual funding of UF and FSU. Actual funding in 1999-2000 and 2000-01 was higher than the proposed contract funding. However, as state revenues declined during 2001-02 through 2003-04, actual funding declined below the amount that would have been provided under the contract.

Figure 10



Source: University of Florida and Florida State University, personal communication, September 2003

Recommendation:

18. A constant level of funding per planned FTE should be specified in the contract for enrollment growth. Funded FTE should be that amount of FTE that could be funded within available resources, then unfunded enrollment could be funded when financial conditions improve.

Tuition

The combined impact of growth in demand and fiscal constraints has resulted in a reexamination of tuition and financial aid policies by many states. Consistent with this, the UF/FSU contract proposal includes a provision that would give trustees the independent authority to set tuition and out of state fees for their institutions. This initiative would result in a major change in Florida's financing of higher education and a move away from the longstanding policy of low tuition. Programs such as Bright Futures and the Prepaid Tuition Program would also need to be adjusted in order to be compatible with tuition flexibility. The implications of the contract proposal related to student access are discussed in another section of the report.

This section examines the potential impact of tuition increases on funding and examines some alternative models of tuition flexibility.

Tuition Flexibility Alternatives: A recent SHEEO survey revealed a shift away from state tuition and fee policies towards policies determined at the institutional level. The table below shows that in 1996-97, 60 percent of the states had some type of formally stated policy of tuition. By 2002-03, this had declined to 43 percent. More details on recent trends in tuition decisions reported by states are in Appendix E.

Table 1

States' Tuition Policies

Tuition Policies	2002-03	1996-97
Tuition should be as low as possible	30%	28%
Tuition should be moderate	13%	28%
Tuition should be high	0%	4%
Tuition policy is guided at institutional-level/no statewide policy	37%	23%
Other	20%	17%

Source: (Rasmussen, 2003)

The same survey also indicated that, unlike Florida, the authority to set tuition and out-of-state fees is already provided to governing boards and individual universities in most states.

Table 2

Primary Authority for Establishing Tuition

Legislature	4
State Coordinating/Governing Agency	18
System Boards	12
Individual Institutions	16

Source: (Rasmussen, 2003)

Short of total devolution of authority to the trustees, a number of alternative strategies could be employed to place limits on tuition increases while providing substantially more flexibility than currently exists. These include but are not limited to:

- A supplemental percentage increase
- Flexibility based on mission
- Flexibility tied to enrollment plans
- Differentiate tuition by program
- Unlimited flexibility for out-of-state fees and graduate tuition

It must be noted that any substantial devolution of tuition and out-of-state fee setting authority would require Legislative appropriation conventions to be adjusted to reflect reduced options in raising revenues from fees and could require adjustments to student financial aid programs.

1. **A supplemental percentage increase.** The approach to tuition flexibility traditionally used in Florida provides authority to increase tuition within a percentage range of the amount set by the Legislature in the General Appropriations Act. The Legislature spends the revenue from the portion of the increase it sets and the institution spends the revenue from the portion of the increase that the institution sets. This approach really only allows a one-time discretionary increase of any significance. Flexibility is limited once an institution has reached the upper limit of allowed variation from the standard fee.

   The example provided in Table 3 assumes a 5% annual increase by the Legislature, with the institutions allowed to charge an additional 10% at their discretion. In this example, an institution that has already reached the 10% limit above the legislatively set tuition only has the discretion to increase fees by <u>10% of the amount of subsequent increases</u> by the Legislature (column 4 in Table 3).

Table 3

Current Flexibility

	1	2	3	4	5
Year	**Prior Year Tuition**	**Legislative Increase**	**Legislative Tuition**	**Institutional Discretionary Increase**	**Total New Tuition**
1	$1,150.00	$57.50	$1,207.50	**$120.00**	$1,320.00
2	$1,320.00	$66.00	$1,386.00	**$17.85**	$1,403.85
3	$1,403.85	$63.00	$1,466.85	**$8.09**	$1,474.94
4	$1,474.94	$66.15	$1,541.09	**$7.42**	$1,548.51
5	$1,548.51	$69.46	$1,617.97	**$7.69**	$1,625.66
6	$1,625.66	$72.93	$1,698.59	**$8.06**	$1,706.65
7	$1,706.65	$76.58	$1,783.23	**$8.46**	$1,791.69
8	$1,791.69	$80.41	$1,872.10	**$8.89**	$1,880.99
9	$1,880.99	$84.43	$1,965.42	**$9.33**	$1,974.75
10	$1,974.75	$88.65	$2,063.40	**$9.80**	$2,073.20

One alternative would be to allow the institutions to increase fees each year by an additional fixed percentage. A modification of this approach would be to tie the discretionary increase to a price index such as the Consumer Price Index or the Higher Education Price Index. In the example presented in Table 4, the universities would be allowed the discretion to increase fees by 2.5% per year, regardless of action by the Legislature. As in the example of the current policy, this example assumes that the Legislature will increase tuition by 5% per year (column 4 in Table 4).

Table 4

Alternative Flexibility Based on % Increase Limit

	1	2	3	4	5
Year	**Prior Year Tuition**	**Legislative Increase**	**Legislative Tuition**	**Annual discretionary Increase**	**Total New Tuition**
1	$1,150.00	$57.50	$1,207.50	**$30.19**	$1,237.69
2	$1,237.69	$61.88	$1,299.57	**$32.49**	$1,332.06
3	$1,332.06	$66.60	$1,398.66	**$34.97**	$1,433.63
4	$1,433.63	$71.68	$1,505.31	**$37.63**	$1,542.95
5	$1,542.95	$77.15	$1,620.09	**$40.50**	$1,660.59
6	$1,660.59	$83.03	$1,743.62	**$43.59**	$1,787.22
7	$1,787.22	$89.36	$1,876.58	**$46.91**	$1,923.49
8	$1,923.49	$96.17	$2,019.66	**$50.49**	$2,070.16
9	$2,070.16	$103.51	$2,173.66	**$54.34**	$2,228.01
10	$2,228.01	$111.40	$2,339.41	**$58.49**	$2,397.89

Pro:

- Represents only a slight modification to current policy while the ability of trustees to manage the finances of their institution is increased.

Con:

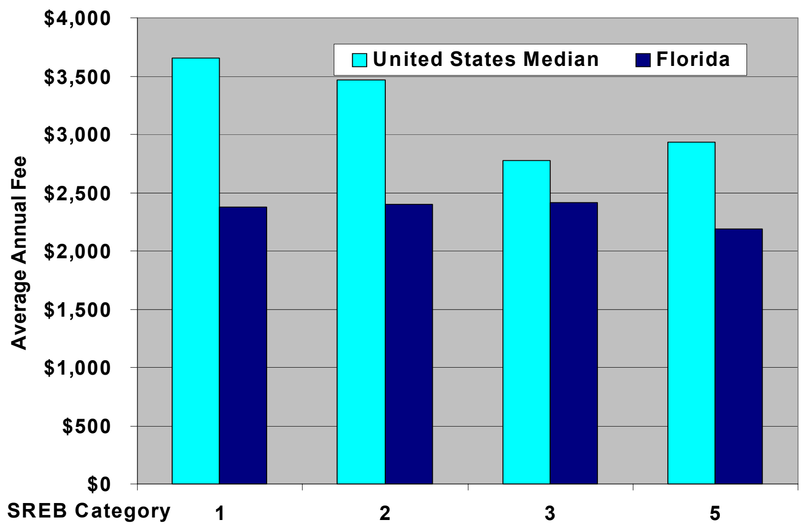
- Provides less flexibility than some other options.
- Does not provide market-based pricing (increase tuition to the market rate)

2. **Flexibility based on mission.** In most states, tuition at regional universities and four year colleges is much lower than at major research universities. In contrast, tuition in Florida is almost the same at all universities. The CEPRI study *Equity of University Funding* (CEPRI, January 2003) noted that the discrepancy between Florida tuition and tuition in other states is most pronounced for the research universities such as UF, FSU and USF.

Figure 11

Comparison of Average Fee Revenue per FTE Between Florida Universities and Peer Institutions in the Southern Region, by SREB Type of Institution

Source: CEPRI Study *Equity of University Funding,* 2003



A second option for limited flexibility would be to tie tuition to the national average or upper quartile of national peers. In the CEPRI Study *Equity of University Funding* (January, 2003), a case was made for the use of the SREB classification system for determining peer institutions.

Pro:

- Provides the most funding increase to the institutions that are the least competitive in funding compared to peers
- Provides a price incentive for enrollment at smaller universities

Con:

- Does not provide market-based pricing (increase tuition to the market rate)

3. **Flexibility Tied to Enrollment Plans.** Tuition flexibility would also give the larger, high-demand institutions the option of forgoing growth in favor of tuition increases as an option for increased revenue. The extremely large size of Florida's universities (Table 5) indicates that capping growth at some institutions may need to be considered at some time in the future. This option would provide full flexibility to institutions that cap admissions. Another permutation of this option would be to begin to treat Florida's multi-campus universities as systems rather than single universities. This would allow individual campuses to be managed and funded differently. Under this approach, specific campuses that are determined to be fully developed could be granted unlimited tuition flexibility.

Table 5

Rank of Florida Universities in FTE Enrollment Among 605 Public Colleges and Universities in 1999-2000

University	Rank	% Smaller
UNIVERSITY OF FLORIDA	3rd	99.50%
FLORIDA STATE UNIVERSITY	17th	97.19%
UNIVERSITY OF CENTRAL FLORIDA	23rd	96.20%
UNIVERSITY OF SOUTH FLORIDA	25th	95.87%
FLORIDA INTERNATIONAL UNIVERSITY	44th	92.73%
FLORIDA ATLANTIC UNIVERSITY-BOCA RATON	118th	80.50%
FLORIDA AGRICULTURAL AND MECHANICAL UNIVERSITY	159th	73.72%
UNIVERSITY OF NORTH FLORIDA	192nd	67.27%
THE UNIVERSITY OF WEST FLORIDA	273rd	54.88%
FLORIDA GULF COAST UNIVERSITY	466th	22.98%

Source: (Integrated Postsecondary Ed Data System (IPEDS), 2003a)

Pro:

- Provides full flexibility to universities with the most demand
- Provides full flexibility to Research I universities where fees are most below peers
- Restricts student costs at institutions that continue to provide expanded access
- Provide some market-based pricing (does allow a increase in tuition to the market rate)

Con:

- Could differentially affect access in some regions of the state as regional institutions become larger and more attractive to students. This could be off-set by the creation of new four-year colleges.

4. **Differentiate tuition by program based on anticipated salary of graduates.** This approach would charge higher tuition for programs that are expensive and lead to high salaries for graduates. Florida currently charges higher rates for Law, Medical, Dental and Veterinary Medicine programs than for other graduate programs. This approach could be extended based on labor market information. Another option could be to charge more for limited high-quality/high prestige honors programs.

Pro:

- Manages student cost based on anticipated ability to pay
- Uses job market to determine pricing

Con:

- If price differences are very large, may provide a cost-based disincentive to enrollment in state priority programs.

- Students in undergraduate programs are typically enrolled in many classes with students from a variety of majors, making fine distinctions between programs very difficult.
- Typically only done for graduate professional programs.
- May not be realistic for a large number of programs because of issues like instability in labor market conditions. The precision required to do this extensively may not be possible at the state level.

5. Unlimited flexibility for out-of-state fees and graduate tuition.

Pro:

- Allows fees to adjust to market conditions.
- Would not affect Bright futures and the Prepaid Tuition Program.

Con:

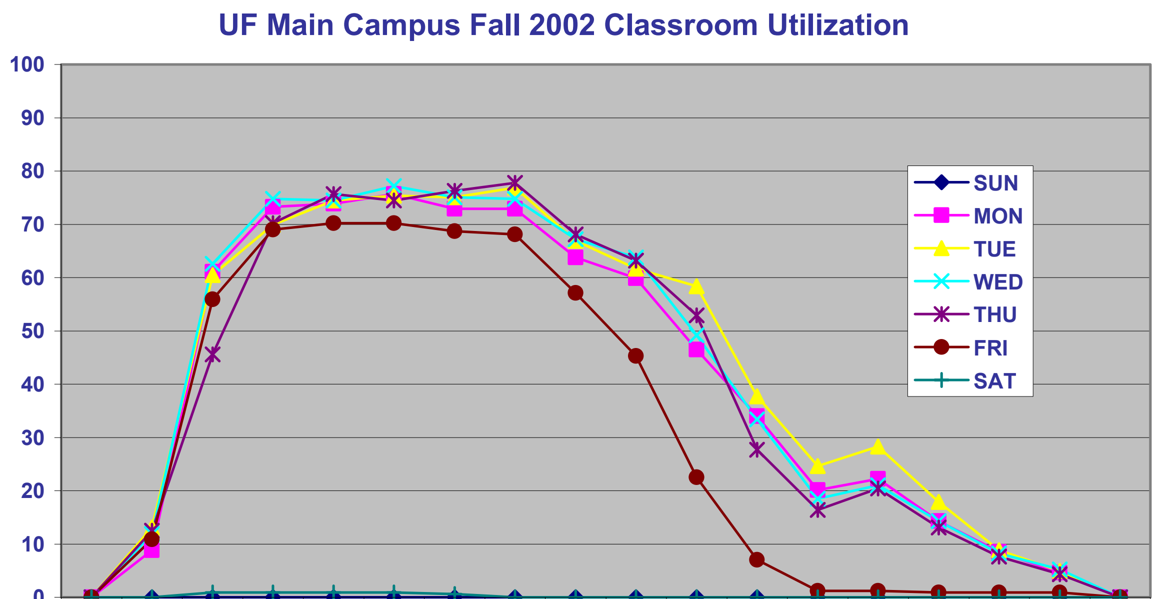
- Probably wouldn't allow for dramatic increases because these fees are already at a level comparable to most states.

Other Types of Flexibility: There are other types of flexibility in setting tuition charges that could be used to affect student behavior. The following are two examples:

1. Block Fees: Prior to 1974, tuition and out-of-state fees in the State University System were based on "block fees" that charged students the same amount for any number of hours above nine. In 1974 this was changed to the current system of uniform charges per credit hour. An unintended consequence of this change was a decrease in the average course load of students which persists today. If the universities were, for example, to combine a block fee with a tracking and program management system such as the one implemented by the University of Florida, student four-year graduation rates would increase and student costs could be significantly reduced.

2. Differential Fees for Unpopular Times of Day: Currently classroom utilization varies dramatically by time of day and day of the week. For example, in a residential campus such as the University of Florida, classroom utilization begins to decline in the early afternoon (see Figure 12). The decline continues into the evening. A tuition rate that costs more for popular times of the day and less for unpopular times of the day could result in a more efficient use of space.

Figure 12



	6AM	7AM	8AM	9AM	10AM	11AM	Noon	1PM	2PM	3PM	4PM	5PM	6PM	7PM	8PM	9PM	10PM	11PM
SUN	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
MON	0	8.8	61.1	73.3	73.9	75.7	72.9	72.9	63.8	59.9	46.5	34	20.1	22.2	14.3	8.5	4.6	0
TUE	0	13.1	60.5	69.9	74.5	75.4	75.1	76.9	66.9	61.7	58.4	37.7	24.6	28.3	17.9	8.8	4.9	0
WED	0	11.9	62.6	74.8	74.5	77.2	75.1	74.8	67.2	63.8	49.2	33.4	18.5	21	14.3	8.2	5.2	0
THU	0	12.5	45.6	70.2	75.7	74.5	76.3	77.8	68.1	63.2	52.9	27.7	16.4	20.4	13.1	7.6	4.3	0
FRI	0	10.9	55.9	69	70.2	70.2	68.7	68.1	57.1	45.3	22.5	7	1.2	1.2	0.9	0.9	0.9	0
SAT	0	0	0.9	0.9	0.9	0.9	0.6	0	0	0	0	0	0	0	0	0	0	0

Source: (Florida Department of Education, 2003c)

Irregular charges such as these could cause a problem in the administration of state financial aid programs that are based on off-setting tuition and fee charges, since these fee structures represent a substantial deviation from current practices. The Department of Education should identify adjustments needed to be made to financial aid programs to implement variable fee schedules, such as block fees and differential fees by time of day.

Recommendations:

19. Universities in contractual relationships with the Board of Governors should be provided unlimited flexibility to set student tuition and fees.

20. The Department of Education should identify adjustments needed to be made to financial aid programs to implement variable fee schedules, such as block fees and differential fees by time of day.

Public Education Capital Outlay (PECO)

Synopsis: The UF/FSU Contract proposed that "Annual PECO funds shall be provided based on each university's last 10-year average PECO appropriations." This concept was reviewed to determine whether PECO should be addressed in the contracts.

Discussion: PECO, considered the state's major program for funding facilities, is established by the state constitution; funds are used for construction, maintenance, renovations, repairs, and debt service. The revenue source for PECO is the Gross Receipts Tax, a tax of 2.5% on utilities gross receipts. Appropriations are funded from cash collections from this tax and from proceeds derived from the sale of bonds supported by the tax revenues.

In reviewing PECO, two facts come to the forefront of the discussion: (1) There will be a severe drop in funds available for projects funded from PECO; and (2) Using a 10-year average will have a negative impact on other educational entities for several years.

As reflected in Table 6, *Public Education Capital Outlay/Gross Receipts Tax Forecast*, the amount of funds available for PECO is anticipated to sharply decline for FY 2004-05, and decline again in FY 2005-06, before beginning to slightly increase each year through FY 2012-2013. The total available for FY 2003-04 was $752.4 million, while the amount projected for FY 2004-05 is $479.7 million. This drop in funds available for PECO projects will affect all educational delivery systems.

Currently, in the process used for developing the legislative budget request, PECO allocations for the School for the Deaf and Blind and special projects, such as public broadcasting, are made "off the top," with the remainder of the funds divided between the three delivery systems based on the percentage of funds appropriated for the five prior years.

Guaranteeing an allocation using the 10-year average proposed by UF and FSU would mean that these two universities would receive a greater portion of a smaller pie than they would under normal circumstances. This would have an adverse impact on universities not under a contract, and could potentially have a negative affect on other delivery systems.

Another activity needs to be taken into consideration. The Department of Education (DOE) has appointed an Advisory Council on Educational Facilities. One of the Council's objectives will be to:

> Recommend alternatives to minimize facilities funding needs, any necessary revisions in the facilities planning and budgeting processes, alternative funding sources, and methods for distributing available resources (Florida Department of Education, 2003a).

Recommendations from DOE's Advisory Council are due February 2004. Since the advisory council is expected to recommend solutions to several problems dealing with facilities, it would be premature to address PECO in university contracts at this time. It may be reasonable to review this issue subsequent to the release of the advisory council's recommendations.

Table 6

Public Education Capital Outlay/Gross Receipts Tax Forecast

	PECO Appropriations	Gross Receipt Tax Collections
FY 2002-03	807.0	781.8
FY 2003-04	**752.4**	**811.3**
FY 2004-05	479.7	823.6
FY 2005-06	446.0	854.8
FY 2006-07	466.9	884.1
FY 2007-08	543.3	913.8
FY 2008-09	542.9	943.7
FY 2009-10	582.5	973.9
FY 2010-11	624.2	1005.4
FY 2011-12	694.3	1037.8

Source: (Office of Economic and Demographic Research - The Florida Legislature, 2003)

Recommendation:

21. Public Education Capital Outlay (PECO) should not be addressed in the contract at this time. It may be reasonable to review this issue subsequent to the release of recommendations by DOE's Advisory Council on Educational Facilities.

PERFORMANCE EXPECTATIONS

Proviso following Specific Appropriation 2545 that assigned the contract study to CEPRI included the following:

> At a minimum the study shall identify the …desired outcomes of each contract ...

The analysis of desired outcomes will be based on examining the mission of the State University System in statute and the State plan. Section 1004.1, Florida Statues, presents the purpose and mission of the State University System as adopted by the Legislature.

> 1004.01 Statement of purpose and mission.—
>
> (1) The Legislature finds it in the public interest to provide a system of postsecondary education which is of the highest possible quality; which enables all students to participate in the search for knowledge and individual development; which stresses undergraduate teaching as its main priority; which offers selected professional, graduate, and research programs with emphasis on state and national needs; which fosters diversity of educational opportunity; which promotes service to the public; which makes effective and efficient use of human and physical resources; which functions cooperatively with other educational institutions and systems; and which promotes internal coordination and the wisest possible use of resources.
>
> (2) The mission of the state system of postsecondary education is to develop human resources, to discover and disseminate knowledge, to extend knowledge and its application beyond the boundaries of its campuses, and to develop in students heightened intellectual, cultural, and humane sensitivities; scientific, professional, and technological expertise; and a sense of purpose. Inherent in this broad mission are methods of instruction, research, extended training, and public service designed to educate people and improve the human condition.

The component of the State plan under the responsibility of the State Board of Education is currently under revision but has, in the past, emphasized access to baccalaureate programs, development of a skilled workforce, production of teachers, world-class research, and support for economic development. The component of the State plan developed by Enterprise Florida emphasizes the role of universities as agents of innovation in support of the state goals of high technology industrial development.

The issue of teacher preparation has been addressed in the CEPRI report *Florida Teachers and the Teaching Profession* (March 2003). The report lists a number of ways in which a university contract could commit to addressing state goals for increased teacher production and quality.

Other university-related issues emphasized in the State plan can be classified into those related to student access and those related to economic development. These two areas are discussed in the sections that follow.

Containing Student Costs

Synopsis: Because the issues of student access and the cost of education are closely linked, the section on student access will also discuss resident tuition and financial aid. However, definitive analyses of financial aid policies are difficult and results must be viewed as tentative. Student financial aid is provided through a variety of state, local, commercial, and private sources and data are often incomplete or inconsistently reported. **Comparisons between institutions and states should be viewed as indicators rather than definitive statements of current conditions.** The approach taken here is to present the results of several independent analyses using different data sources to see if they indicate consistent conclusions. For the long term, CEPRI is in the early stages of an extensive project with the Office of Student Financial Assistance of the Florida Department of Education, and with support from the Lumina Foundation, to assess Florida's student financial aid programs.

Discussion:

The Need for Coordinated Policies: In *Financing in Sync: Aligning Fiscal Policy with State Objectives*, Jones (2003) notes that the educational mission of public higher education is funded based on a number of policies set at different times by different decision-makers:

1. Policies related to appropriations for general operations
2. Tuition and fee policies (including out-of-state fees)
3. State financial aid policies
4. Institutional financial aid policies
5. Federal financial aid policies

He also notes that when funding policies are not aligned, important goals of higher education are not realized:

1. Students find higher education becoming unaffordable and opt out;
2. Taxpayers pay more than their fair share; or
3. Institutions fail to acquire the resources needed to adequately fulfill their missions.

Jones (2003) also describes the variety of goals that affect tuition and financial aid policies.

Tuition

1. Affordability
2. Revenue
    a. Access to courses and programs
    b. Efficiency and performance
    c. Quality and economic development mission
3. Support differential missions and costs

Financial Aid

1. Affordability
2. Reward performance

3. Stem the "brain drain"

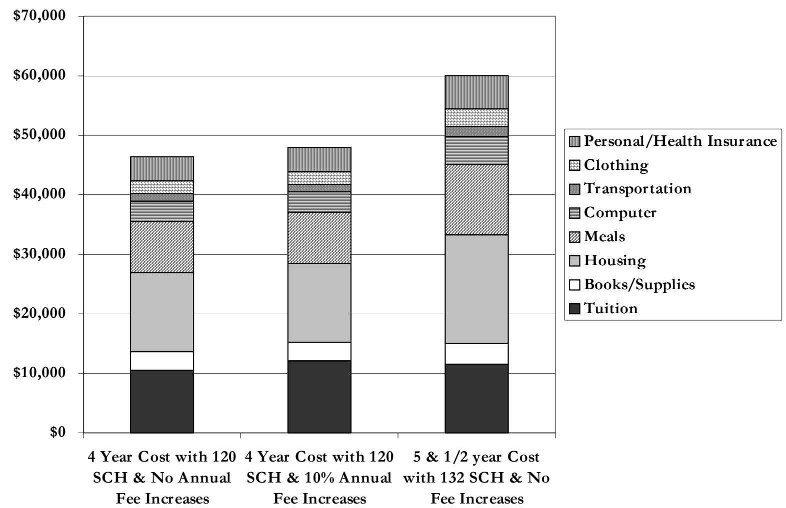
He cautions that **"While the prescription is straightforward— formulate policy… in concert rather than independently—it is seldom followed. These policies are typically made independently"** (Jones, 2003). The one place where financial aid and tuition and fee policies are somewhat reconciled is in the financial aid office. Financial aid officers try to assess the individual needs of each student and then assemble a workable financial aid package from available resources that balance a combination of work, grants, and loans from the resources available at the institution.

While the financial aid office can usually provide funds to pay for college costs – at least in the form of loans – the office cannot guarantee access to courses. For example, high tuition is often cited as a barrier to access. On the other hand, both the revenue and cost aspects of tuition policies can affect access. Low tuition could result in a barrier to access if limited revenue impacts funding of courses that are needed in order for students to graduate on time. This is particularly possible during a period when funding from state revenues is being reduced. Figure 13 compares the current annual cost of attending the University of Florida to the cost of attendance with a ten percent increase. If the 2002-03 combined cost of tuition and fees of $2,630 were increased by ten percent, the increase would be $263. This amount represents a 2.3 percent increase in the total suggested annual student budget of $11,595. If tuition and fees were to be increased by ten percent for three years, the annual cost would rise to a total increase of $789 per year after the final year of increases. This scenario represents a 3.4 percent increase in the total cost of attending college for four years. On the other hand, the cost to the typical student that takes about five and a half years rather than four years and 132 hours rather than 120 hours to graduate, is increased by $13,642 or over 29 percent.

Therefore, the current trend of students taking more than four years to graduate constitutes a more significant increase in cost than even large increases in tuition and fees. This trend is at risk of becoming more acute as budget reductions and spiraling enrollment constrain student access to courses. On the other hand, if universities were to use revenues from tuition increases to ensure that students were able to take the courses needed to graduate in a timely manner and if incentives and assistance were provided to students to encourage graduation in a shorter time period, tuition increases could actually result in many full-time students saving money.

Figure 13

Tuition Increases Impact Total Cost of Achieving a Degree Much Less than the Time Taken to Graduate



Source: CEPRI analysis of student budget on UF financial aid website.

The contract proposal provides an opportunity to place sufficient authority in the hands of one decision body, the university board of trustees, who is close enough to the impact of decisions to orchestrate a coordinated system of tuition and fees, student support, and expenditures that can maximize student success. Performance objectives and measures associated with the devolution of tuition setting authority could ensure that this opportunity is realized. Further benefits could be achieved if policies in other related programs run by the State were brought into alignment with the goal of maximizing access.

Student Tracking

Synopsis: In order to minimize excess credits students take, in 1996 the University of Florida introduced the Universal Tracking (UT) system. Universal tracking serves two purposes: inform students of the critical courses they must successfully complete for their major; and to evaluate whether or not satisfactory progress is being made.

Discussion: "The Universal tracking is a degree audit system, which provides a recommended semester-by-semester enrollment plan that includes certain 'critical' courses. 'Critical' courses must be completed with the required GPA during the semester in which they are indicated in order to be on track for the designated major"(The University of Florida, 2003).

The purpose of universal tracking is to allow students to explore majors and to receive feedback on their progress in the major in order to find the best academic path to complete their degree. If a student falls "off track" then a hold is placed on the student's registration until he or she meets with an academic advisor. UT holds applied at the end of the term for poor academic performance for two consecutive semesters require the student to see an advisor prior to the next term of enrollment to select a new major to avoid cancellation of enrollment. The online

Integrated Student Information System allows students to assess a new major's impact on their graduation timetable. The UT system also allows Enrollment Management to identify class shortages. Enrollment Management funds are provided to the Colleges to add more seats in the shortage areas.

The results of this program are positive. In the first year the 4th year graduation rate increased by 4 percent; in the second year it increased an additional four percent. The 1996 4 year cohort increased to a graduation rate of 50% in four years, compared to the 1993 cohort which had a graduation rate of 32% in four years. While Universal Tracking was a major contributing factor in increasing graduation rates, there were also other contributing factors, such as increase in the quality of the student, student satisfaction, faculty satisfaction and participation (The University of Florida, 2003).

By comparing the four-year graduation rate at the University of Florida to the other universities included in the study, Table 7 further illustrates the success of this program.

Table 7

Graduation Rate of Entering Cohorts at Selected Florida Universities Four Years After Admission

1st Yr	SUS	UF	FSU	USF	UCF	FIU
1990	26.13%	29.49%	37.63%	17.92%	20.91%	18.70%
1991	25.89%	28.90%	38.95%	19.75%	20.14%	17.69%
1992	27.61%	30.69%	38.47%	20.04%	23.32%	16.10%
1993	28.26%	**33.69%**	39.61%	20.42%	21.80%	15.38%
1994	28.87%	**37.95%**	39.81%	19.23%	23.98%	14.28%
1995	31.29%	**42.90%**	39.56%	19.17%	26.17%	14.66%
1996	32.51%	**50.04%**	39.54%	18.79%	24.95%	15.71%
1997	32.99%	**49.01%**	39.86%	21.41%	26.91%	16.45%

Source: (Florida Department of Education - Division of Colleges and Universities, 2002)

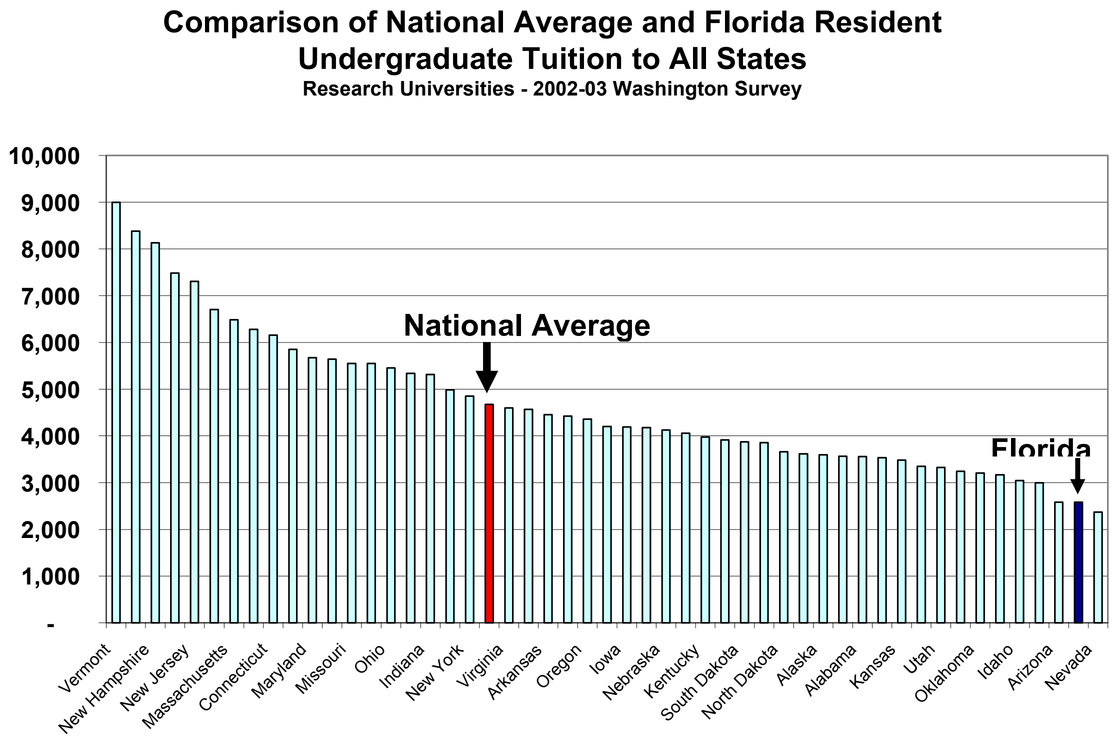
Recommendation:

22. The Contract Specification should include a performance expectation related to assisting students in staying on track for degree completion. While strategies may vary by institution, universities may consider implementing a Universal Tracking system similar to that implemented by the University of Florida.

Current Florida Tuition and Financial Aid Policies

Florida has a long tradition of low tuition. For example, the annual survey by the state of Washington ranks Florida as the next to lowest state in resident undergraduate tuition at the major universities for 2002-03 (Figure 14)[3].

Figure 14



Source: (Washington Higher Education Coordinating Board, January 2003) Figures are for annual tuition and fees for academic year 2002-03 at public four-year research institutions. Survey results completed January 2003.

Another useful comparison would be to look at the net amount of tuition paid by students, calculated by dividing the total payments from state financial aid programs by resident undergraduate FTE enrollment and subtracting this amount from annual tuition charges for a full time student. Figure 15 compares tuition and student financial aid for the 10 largest states. The total amount represented by each column is the tuition charge for resident students. The light portion of the column is the amount paid from state sources, on average, to students for need-based financial aid. In other words, it represents the result of dividing all state-funded need-based aid by the total number of resident students. The medium portion of each column represents the results of the same calculation for non-need based aid.

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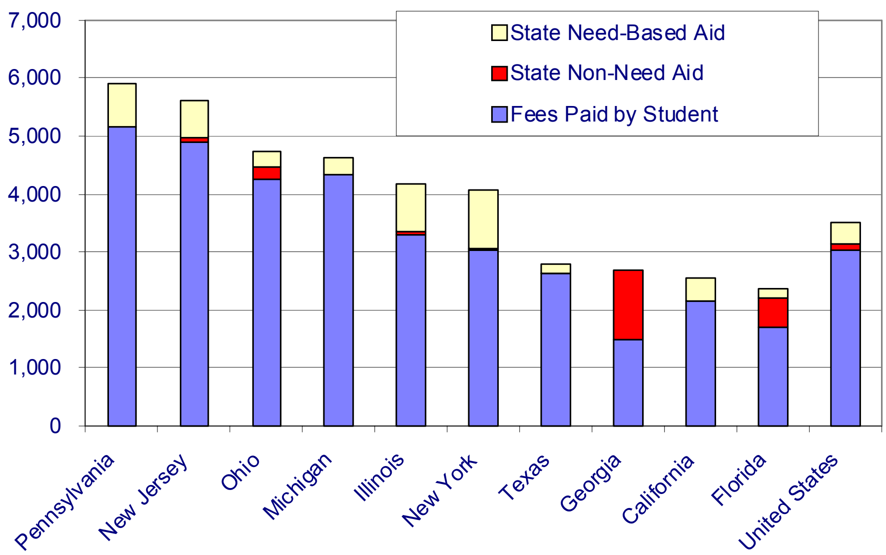
[3] The publication *2002-03 TUITION AND FEE RATES A National Comparison* by the Washington Higher Education Coordinating Board is based on a survey of a sample of institutions that has been conducted for 34 years. While it is based on a sample, the sample is large and statistically significant. The uniformity of tuition and fees at Florida universities is such that there is only a $7.05 difference between the average of tuition and fees at Florida universities included in the survey and the average of all Florida universities. By comparison, the average difference in resident tuition at major research universities between states that are ranked next to each other is $135 in the 2002-2003 comparison.

Figure 15

Average Tuition, Fees, and Financial Aid per FTE of 10 Large States and U.S.



Sources: NCES Digest of Education Statistics 2001 and NASSGAP Annual Survey of State Grant Programs 2000-01.

This chart again illustrates Florida's low tuition and fees, but also shows the small size of the state's need-based aid program and the large size of the merit aid program.

The Share of Cost of Higher Education: The low ranking of Florida tuition raises the question of whether Florida policies represent an equitable balance between cost to the student and the taxpayer. In *Higher Education: Who Pays? Who Benefits? Who Should Pay?*, the Carnegie Commission on Higher Education presented one of the earliest and simplest statements on tuition policy: that the division of the cost of higher education between the student and the taxpayer should reflect the share of benefits that are received by the student versus the public at large (Carnegie Commission on Higher Education, June 1973).

The social benefits of higher education have been described in various reports (Bynner, September 2001; National Education Association, May 2003; Watts, 2001) as:

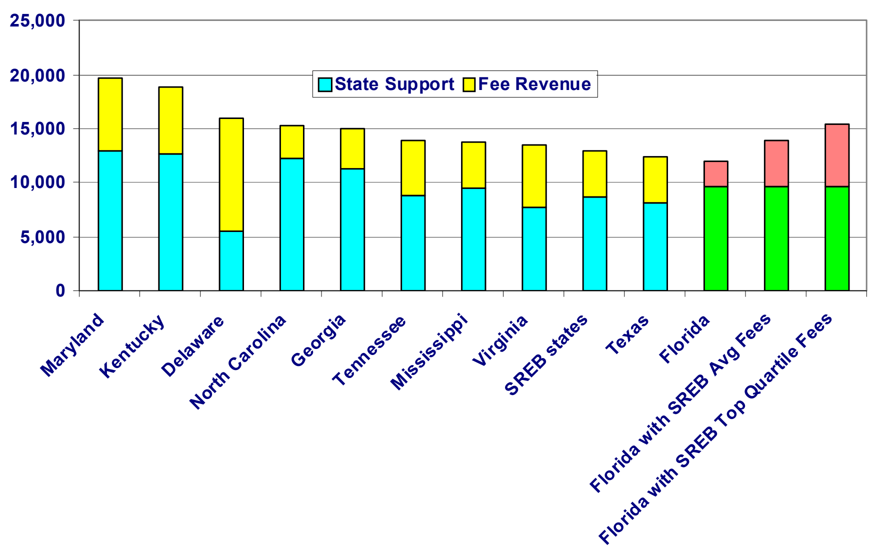
1. Highest and best use of individual talent; maximize the productivity of a society
2. Increase tax revenue
3. Minimize social costs that are correlated with under-education (crime rates and dependency)
4. Informed and educated electorate
5. Increased entrepreneurism
6. Increased technological innovation

7. Contribution to an attractive environment for the relocation of businesses and talented professionals

It appears that these social benefits could be classified into two categories: benefits related to access and benefits related to the interrelated issues of reputation and research productivity. In the CEPRI report *Equity of University Funding* (January 2003), it was noted that lack of a competitive level of tuition revenue was largely responsible for the low overall funding of Florida's research universities. Figure 16 compares the funding of Florida's three largest research universities (the SREB Research I universities, UF, FSU, and USF) to the top ranked states in the southern region. The two columns to the right show how adding regional average or regional upper quartile fee rates to the current level of Florida taxpayer support would improve the competitive funding of these universities.

Figure 16

Revenue per FTE of Research I Universities: Florida vs. Top Funded SREB States



Source: (Southern Regional Education Board, June 2003)

Personal benefits from higher education are also extensive and overlap the social benefits (Bynner, 2001):

1. Higher income
2. Prestige
3. Better working conditions
4. Better potential for promotion
5. More opportunities to relocate in response to job opportunities.

If Florida policies represent a better balance between benefits to society as a whole versus the personal benefits to the student than is typical of other states, then what is the basis of this judgment? A benefit might be that low tuition facilitates access and promotes educational achievement by low income students.

How does Florida measure up in evaluations of affordability and access? In *Measuring Up 2002: The State-by-State Report Card for Higher Education*, (National Center for Public Policy and Higher Education, 2002) Florida received an affordability grade of "D-". This grade is based on two measures: the percent of income needed to pay for college expenses minus financial aid, and the size of state aid to low-income students relative to the federal Pell Grant. Tables 8 and 9 demonstrate how Florida was evaluated on each of these measures relative to states that received an "A" grade. It must be noted that this study did not take into account financial aid provided by the institution rather than the state. Through state policy, Florida has provided for a student financial aid fee and an appropriation of general revenue to the universities for student financial aid. These numbers do not appear to be reflected in this analysis.

Table 8
Family Ability to Pay

Percent of income needed to pay for college expenses minus financial aid: (average of all income groups)	Florida	Top States
• at community colleges	23%	16%
• at public 4-year colleges/universities	23%	18%
• at private 4-year colleges/universities	62%	32%

Source: (National Center for Public Policy and Higher Education, 2002)

Table 9
Strategies for Affordability

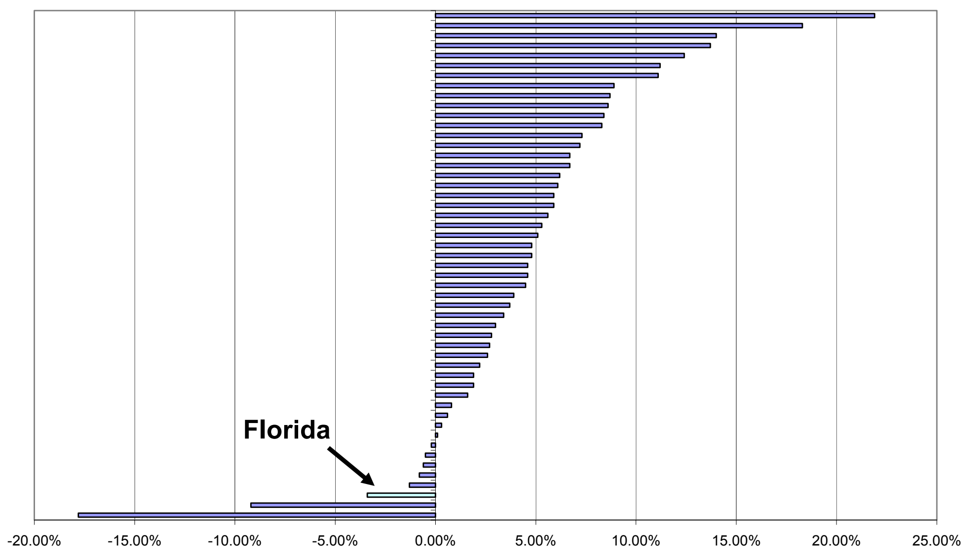
	Florida	Top States
State grant aid targeted to low-income families as a percent of federal Pell Grant aid	16%	108%
Share of income that poorest families need to pay for tuition at lowest priced colleges	13%	8%
Average loan amount that all undergraduate students borrow each year	$3,082	$2,928

Source: (National Center for Public Policy and Higher Education, 2002)

Another approach to evaluating access is a measure of college participation rates by low-income students that is presented in *Postsecondary Opportunity* (Postsecondary Opportunity, July 2003) (Figure 17). Again Florida scores very low in college participation by low income students and is one of the few states showing a decline in such participation.

Figure 17

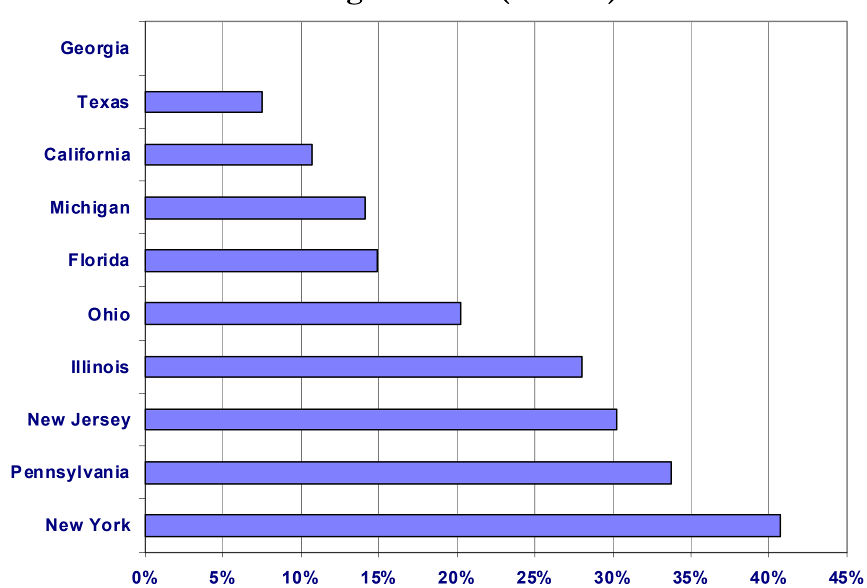
Change in College Participation Rates for Children From Low Income Families from 1992 to 2001



Source: (Postsecondary Opportunity, July 2003)

In summary, Florida's tuition and financial aid policies may not provide a high degree of access. Why does a low tuition policy not inevitably lead to enhanced access? One reason was discussed earlier: tuition is not the major cost of college and Florida appears to be among the lower states in provision for need based aid (Figure 18).

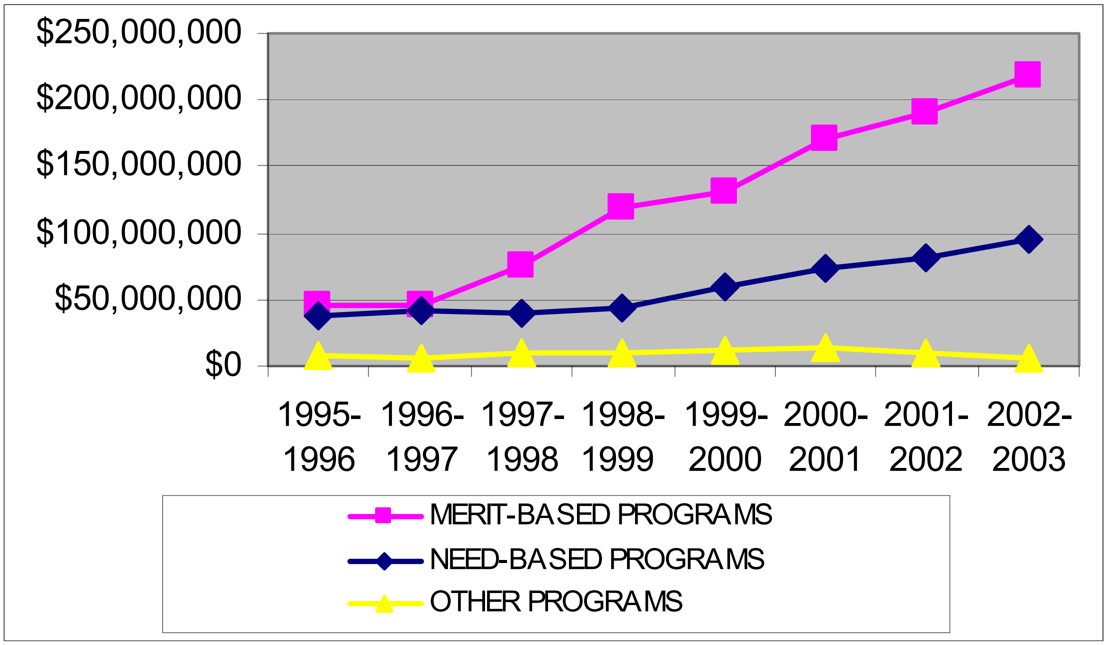
Figure 18
Percent of Undergraduates Receiving State Need-Based Aid in Ten Largest States (2000-01)



Source: (CEPRI, 2003). *Note,* Georgia provides no State need-based aid.

On the other hand, Figure 19 illustrates that along with the increases in Bright Futures, Florida has made some gains in providing need-based aid in recent years.

Figure 19
Trends in Florida State Operated Need and Merit Based Student Financial Aid



Source: (Florida Department of Education - Division of Colleges and Universities, 2002)

Jones (Jones, 2003)summarized several problems with a low tuition/high merit aid strategy:

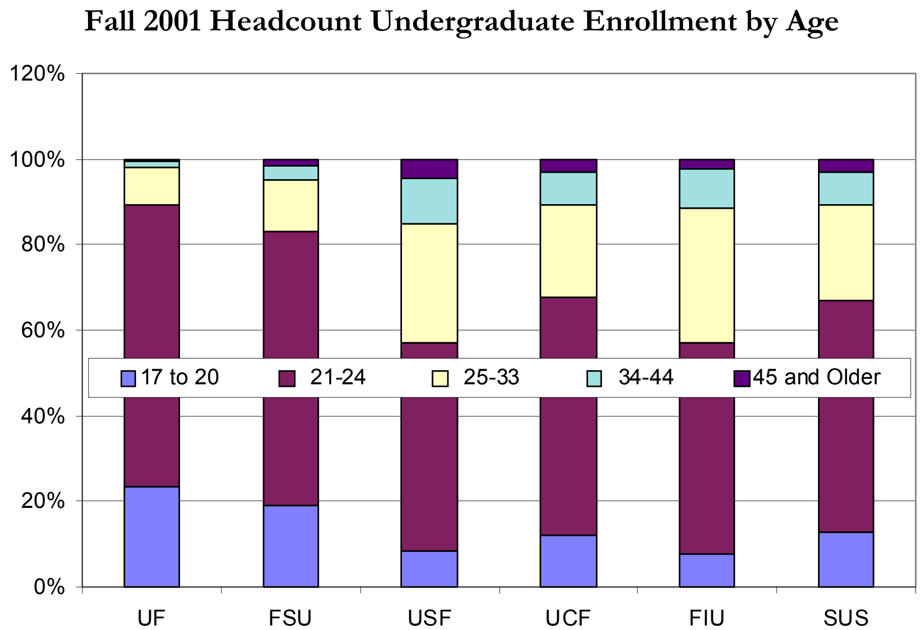
1. It benefits students who would have gone to college anyway
2. It reduces the price of attendance for students who could have afforded to pay more
3. It shifts costs from students and parents to taxpayers
4. It is unlikely to substantially improve either participation or affordability

Summary of Current Florida Policies:

1. Current policies emphasize low tuition and high levels of merit aid
2. These policies produce a low ranking among states in success at providing access...
3. Current Florida tuition levels provide the state with an untapped and uncommitted revenue opportunity

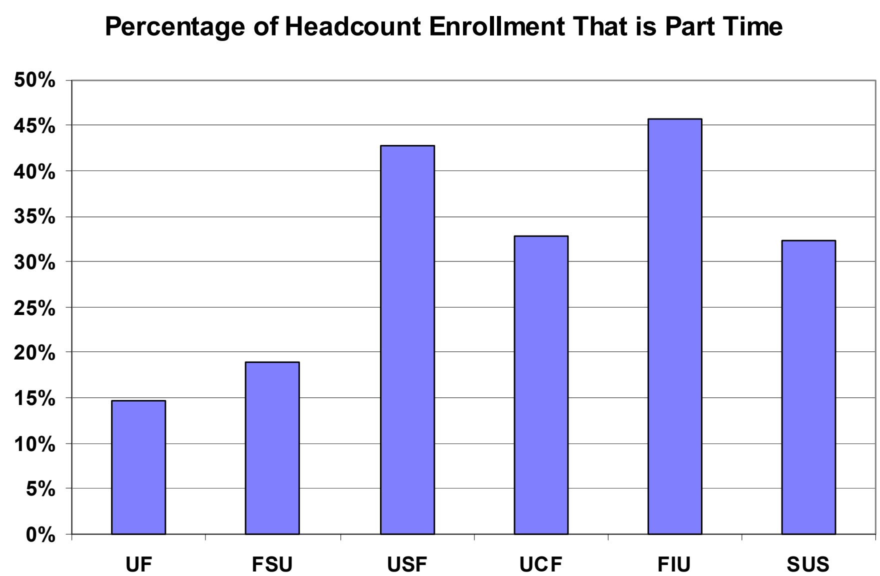
Institutional Differences: With the inclusion of USF, UCF, and FIU in the study in addition to UF and FSU, about 75 percent of the enrollment of the University system is now included in the contract study. The result is more diversity in the demographics of students who could be affected by a contract. While UF and FSU are residential institutions primarily serving traditional college-age students, USF, UCF, and FIU serve much larger populations of older students who tend to more likely be place-bound by families and careers (Figure 20) and part-time students (Figure 21). As a result, the challenges related to preserving access are greater and opportunities for savings through higher course loads and reduced time to graduation exist to a lesser degree for these institutions than for UF and FSU.

Figure 20



Source: (Florida Department of Education - Division of Colleges and Universities, 2002)

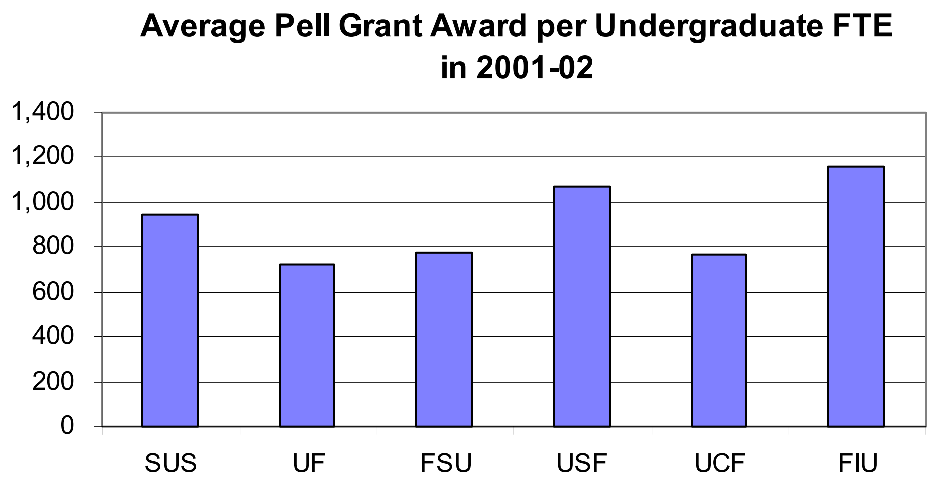
Figure 21



Source: (Florida Department of Education - Division of Colleges and Universities, 2002)

There are also differences among the institutions in the proportions of students with financial need. The Pell Grant is the federal need-based grant that is available to full-time or part-time undergraduate students with sufficient demonstrated need. The following chart compares the total value of Pell Grant awards divided by the total undergraduate FTE in 2001-02 for each university in the study. This indicates a higher proportion of students who qualify for need-based aid at USF and FIU than at the other universities.

Figure 22



Source: (Florida Department of Education - Division of Colleges and Universities, 2002)

In summary, there are different access issues that could be affected by providing university trustees with the authority to set tuition for each university in the study. As a result, contracts should insure that access by each university's unique student population would be maintained if the authority to set tuition were to be devolved to the trustees.

Recommendations:

23. Each university contract should include performance measures related to student access and graduation.

24. Each university contract should require a specific plan for containing student cost. The plan should be based on an analysis of the characteristics of the university's student population.

Economic Development

Synopsis:
A contract can be used to ensure that the university is meeting the state's needs. This section discusses the potential benefits for Florida's economy that could be derived from the contract proposal.

Discussion:
Florida's Strategic Plan for Economic Development has targeted a number of technology- based industries as economic development goals for 2002-03. These are as follows (Enterprise Florida, 2003):

- Aviation/Aerospace
- Biomedical Technology
- Homeland Security/Defense
- Information Technology
  - *Computer/Communications Equipment*
  - *Information Services*
  - *Photonics*
  - *Semiconductor Technology*
  - *Software Development*
  - *Telecommunications*
- Modeling, Simulation & Training
- Plastics

In Special Report 2003-08 of the Florida Strategic Plan for Economic Development, *Growing Florida's Innovation Economy*, the critical role of universities in developing Florida's economy was underscored (Enterprise Florida, 2003):

> Universities play a pivotal role in growing an innovation economy. Florida got off to a much slower start than places like Boston, Pittsburgh, the Bay Area, or the Research Triangle, most of which have been investing in fundamental scientific research for the better part of the 20th century – so there is still much catching up to do. However, Florida has by now built up a critical mass of academic technology resources in-state, and with the right policies and collaborative efforts are well positioned to emerge as a key technology player nationally and globally.
>
> In many quantitative indicators (R&D spending, science and engineering data, etc.), Florida fares very well in absolute terms, since it is a large state and has developed critical mass in many functional areas. But relative to the size of its population base, labor force, and economy, Florida fares quite poorly. Qualitatively, there are pockets of research excellence around the state that can serve as a base for future innovation-led economic growth.

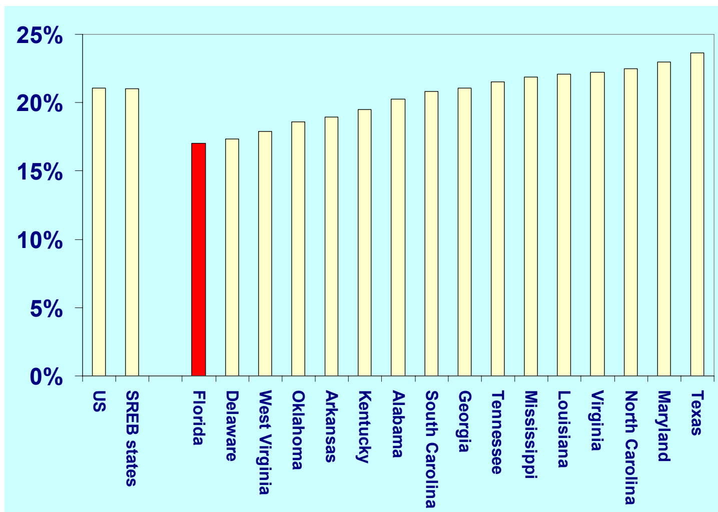
The Florida Strategic Plan for Economic Development notes that as a large state, Florida ranks high on a number of university-related measures that indicate a favorable environment for high technology (Enterprise Florida, 2003):

- In 1999, Florida ranked 12th among states in academic R&D performed ($781 million);
- The 7th highest number of science & engineering graduate students in doctorate-granting institutions (19,469);
- The 9th highest number of science & engineering doctorates awarded (810 degrees);
- The 12th highest number of doctoral scientists (14,550) and doctoral engineers (2,990);
- 19th nationally in the number of science & engineering post doctorates in doctorate-granting institutions (646).

However, the Strategic Plan notes that relative to its size, Florida does not perform as well as many of its competitor states and appears to have relatively small departments devoted to science and technology. The state ranks the lowest among the states that are members of the Southern Regional Education Board in the portion of the total number of Bachelors degrees that are produced in science and technology by state schools (Figure 23).

Figure 23

Percentage of Bachelors Degrees That are Awarded in Science and Technology in 1997-98

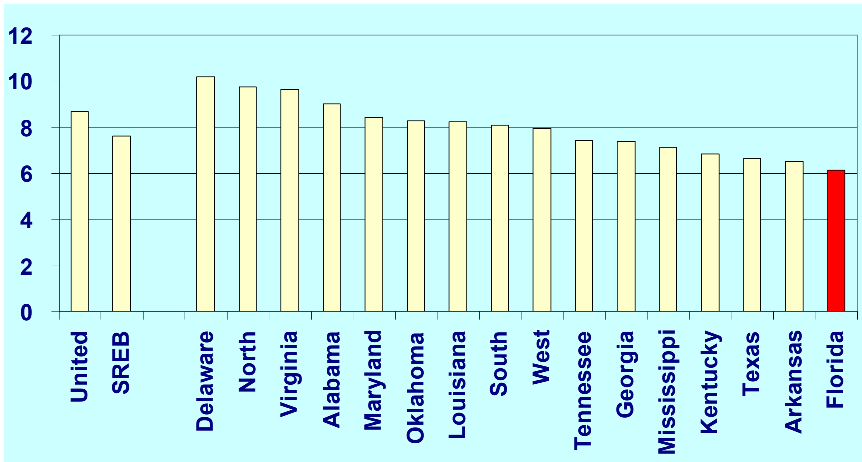


Source: (Southern Regional Education Board, 2002)

This is also reflected in Florida's ranking in the southern region in the production of Bachelors degrees in science and technology relative to the size of its 18 to 24 year old population, as reflected in Figure 24.

Figure 24

Bachelors Degrees in Science and Technology per 1,000 18 to 24 Year Olds in 1997-98



Source: (Southern Regional Education Board, 2002, 2003)*Bachelor's Degrees Awarded in Selected Fields and Population* and *Age Distribution of the Population*

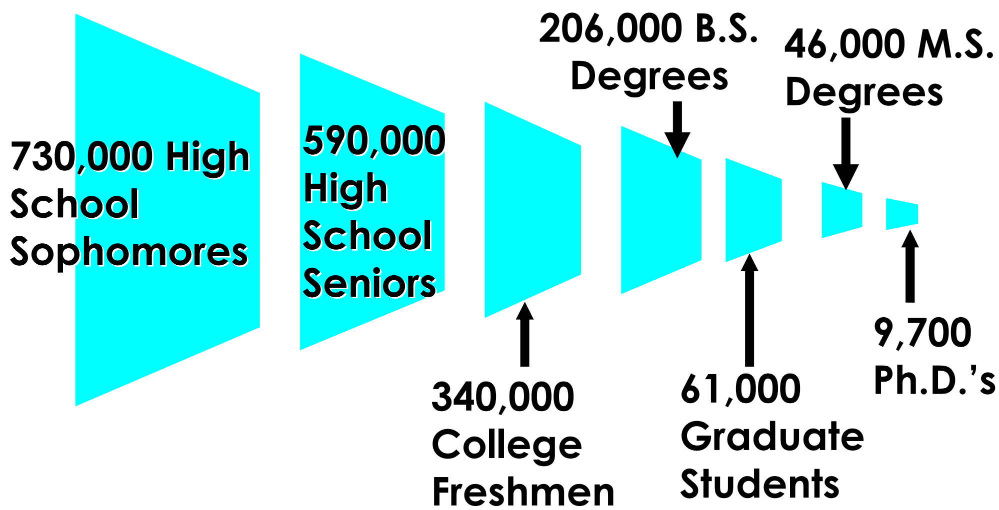
In the study *Educating Scientists and Engineers: Grade School to Grad School* (June, 1988) that dealt with increasing the production of scientists and engineers, the Congressional Office of Technology Assessment noted that:

> …retaining college and graduate students in science and engineering is the most useful policy strategy. Many able students leave science during college, after earning baccalaureate degrees, and during graduate school. Only about 30 percent of baccalaureate science and engineering graduates enter full-time graduate study, and nearly half of science and engineering doctoral candidates never earn Ph.D.s. Some loss is inevitable (and, indeed, beneficial to other fields), but those who leave unwillingly and prematurely are a rich resource that could be tapped. Because attrition rates are so high and the population of research scientists and engineers is relatively small, slight improvements in retention could increase significantly the number of scientists and engineers in the work force (Congressional Office of Technology Assessment, 1998).

> **The study noted that opportunities for increasing the production of science and engineering graduates expand with a focus on improving science and math education in earlier grades (Figure 25).**

Figure 25

The Science and Engineering Pipeline of the 1977 Cohort of High School Sophomores



Source: (Congressional Office of Technology Assessment, 1998) includes physical, mathematical, and life sciences, and engineering, but not the social sciences.

Even within post secondary education, less than sixty percent of freshmen who intend to major in science and technology actually graduate from those programs. As reflected in Table 10, Green (1987), looking at retention to completion in their intended major of a 1982 cohort of entering freshmen, found the rate to be much lower in the physical sciences than in other disciplines. The study notes that "In general, these fields lose twice as much talent to fields other than natural sciences and engineering fields than they gain."

Table 10

Retention to Completion in Intended Major
A 1982 Cohort of Entering Freshmen

Business	70%
Education	60%
Social Sciences	60%
Engineering	58%
Physical Sciences	38%

Source: Kenneth C. Green, OTA contractor report, 1987. Based on data from the Cooperative Institutional Research Project, University of California at Los Angeles.

Seymour and Hewitt (Seymour & Hewitt, 1997), conducted a comprehensive study on why undergraduates leave the sciences. They found that students were dissatisfied with what they perceived as poor teaching and other negative experiences in "weed-out" science courses. Frequent complaints were heard about courses and textbooks that are filled with facts that students are expected to memorize with little opportunity for conceptual development, and tests that only assess students' abilities to remember such facts from recent lectures and chapters. An important result was a shift away from science and math courses during the upper division undergraduate years.

Improving the quality of college science, technology, engineering, and mathematics instruction has been the topic of several National Research Council studies. These studies point to the growing body of empirical research showing that learning can be enhanced when college instructors incorporate teaching strategies that are student-centered, interactive, and structured around clearly stated measurable learning outcomes. In *Improving Undergraduate Instruction in Science, Technology, Engineering, and Mathematics*, the National Research Council noted that:

> Recent evidence suggests that students who sit passively in lectures for an entire course may fail to replace their prior misconceptions with new knowledge; the conceptual difficulties they have when they enter a course are likely to persist if instruction does not address their difficulties specifically (King, 1994; Mestre, 1994; Loverude et al., 2002; Marchese, 2002). For many students the traditional didactic lecture, when applied as the primary instructional method in science courses, fails to provide opportunities for integrating new and old knowledge. Lectures may lead to memorization of factual information but often do not succeed well in eliciting comprehension of complex concepts (Terenzini and Pascarella, 1994; Honan, 2002; Loverude, Kautz, and Heron, 2002) (National Research Council, 2003a).

Despite extensive research in the inadequacy of traditional lecture and laboratory classes in providing meaningful science instruction, a 2001 nationwide survey of 123 research-intensive universities by The Reinvention Center at Stony Brook found that only about 20 percent provide opportunities for active learning or real-world problem solving for their students in a substantial number of introductory science courses. On a majority of campuses the didactic lecture remains typical instructional mode in these courses. Alison King (1994), noted that

> Much of what transpires in today's college classrooms is based on the outdated transmission model of teaching and learning: the professor lectures and the students take notes, read the text., memorize the material, and regurgitate it later on an exam (King, 1994).

In summary, it appears that production of science and engineering graduates could be expanded by increasing retention efforts such as counseling and financial aid; identifying "gatekeeper courses" in the programs where a large number of students are unsuccessful or change majors; improving curriculum; and providing other assistance in those courses to increase student success.

Innovation:

> Universities and specialized research centers are the driving force behind innovation in nearly every region: Although companies and individuals do create a large number of innovations, universities and research centers institutionalize entrepreneurship and ensure a steady flow of new ideas (Council on Competitiveness, December 2001).

The knowledge-based economy has added opportunities to enrich funding for research and employment opportunities and professional experience for students and for university support of that state's economy. The additional funding that could be derived at Florida's research universities from a competitive level of tuition and out-of-state fees offer the opportunity of creating world class assets for the State's efforts to develop technology based sectors of its economy. It should be noted that the fact that Florida has not tapped student tuition as a revenue resource to the degree of other states provides the opportunity that future increases can be done in a way that directs the revenues towards strengthening university programs in areas such as science and technology that support state priorities.

Successful university researchers bring research grants into the state, attract the best students, and provide opportunities for the state to attract and develop industry. The best research faculty want to work in an intellectually rich environment where they can pursue the most interesting problems and interact with other faculty who are equally stimulated by their own research, and with the best, most engaged students. It is these faculty who are in the forefront of new discoveries, attract large research grants to their university and state, are heavily recruited, and are constantly presented with new and tempting job opportunities.

How do Florida's universities measure up in terms of quality? There are a few highly-publicized efforts to rank universities such as the *U.S. News and World Report*'s ranking of America's Best Colleges which has little credibility in academia. Possibly the most credible are the rankings by the National Research Council of individual programs (see Table 11). The National Research Council is part of the National Academies, which also comprise the National Academy of Sciences, National Academy of Engineering, and Institute of Medicine. They are private, nonprofit institutions that provide science, technology and health policy advice under a congressional charter. The Research Council was organized by the National Academy of Sciences in 1916 to associate the broad community of science and technology with the Academy's purposes of further knowledge and advising the federal government. Florida has a number of programs that achieve a respectable level of ranking by the National Research Council, as shown in Table 11.

Table 11

Nationally Ranked Florida University Programs
The National Research Council Ranking of University Programs

	Outstanding	Excellent	Very Good	Good
Any Discipline				
UF		1	15	16
FSU			7	15
USF				5
UCF				2
Science and Technology				
UF			10	11
FSU			4	9
USF				4
UCF				2

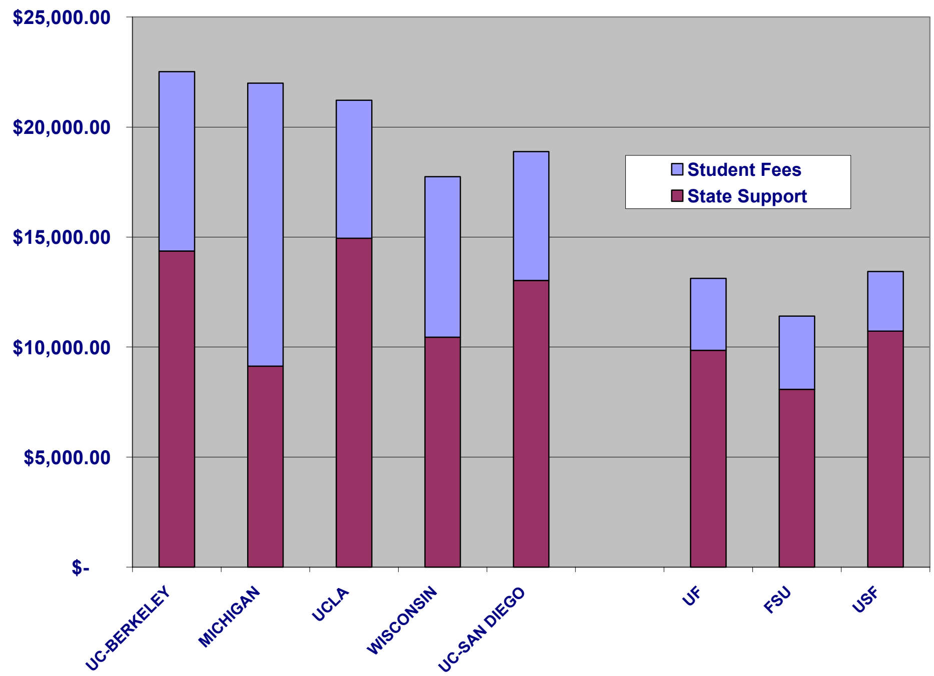
Source: (National Research Council, 1993)

The National Research Council rankings are only conducted about every 10 years because of the time needed to significantly improve the standing of academic departments. The last ranking was conducted in 1995. While the issues proposed to be addressed in the contract offer the potential of significantly enhancing the quality of Florida's universities, definitive evidence of the achievement of significant quality improvement will likely take more time than the duration of any one contract. On the other hand, if a contract is one component of a long range plan for the universities, then the achievement of quality improvement could be planned for incorporation into contracts at some future iteration.

Figure 26 illustrates the potential for Florida's Research I (SREB category) universities to reach a nationally competitive level of funding with fee flexibility. This chart illustrates the point that the discrepancy in funding between Florida's Research I and the top five public universities in the country (according to a statistical analysis of the National Research Council rankings) is more a function of differences between tuition policies than differences in levels of state funding.

Figure 26

Student Fee Revenues are the Major Difference in Funding per FTE Between Florida's Research I Universities and the Top 5* Public Universities in 1999-2000



Source for financial data: (Integrated Postsecondary Ed Data System (IPEDS), 2003b)
Source for institutional rankings: (National Research Council, 2003b)
Note: UF financial data is adjusted to remove IFAS in order to make provide for comparability with the other universities.

Note that the funding level at FSU is prior to the full implementation of the new medical school and that only Berkley of the top 5 universities does not have a medical school.

Recommendation:

25. The contract should address priorities of the State. These priorities could include, but not be limited to, addressing the shortages of teachers and nurses, increasing the number of high-quality education leaders, and increasing graduates in scientific and technical fields to support the State's economic development goals.

Customer Satisfaction Surveys

Synopsis: Student and employer satisfaction surveys were reviewed to determine whether performance measures should address them in the contract. Institutions participate in national student surveys because the surveys allow the institution to utilize an established survey instrument and obtain national comparisons. While each national student survey serves a different purpose, the results yield more information about students, faculty, staff and the activities in which each group engages. Institutions can learn more about its campus community, the needs that are being met and specific areas that need improvement.

Discussion: Satisfaction surveys conducted by Florida universities were reviewed by researching the Southern Association of Colleges and Schools (SACS) accreditation requirements, the Florida Education and Training Placement Information Program (FETPIP) standards, available national surveys, and institutional surveys conducted by Florida universities.

The Southern Association of Colleges and Schools (SACS), which provides accreditation to Florida institutions, has no specific satisfaction survey requirements. However, SACS does specify that institutions must evaluate expected outcomes and student success.

The Florida Education and Training Placement Information Program (FETPIP) is a data tracking system that follows students in K-12, college and the workplace. It is difficult for universities to specifically identify their students using FETPIP data because information regarding the student's college of attendance is not collected.

Florida universities utilize national student surveys to learn more about their customers. This does not come without a cost; participating institutions can expect to spend a minimum of $7,500 per survey. The fee would include a limited amount of analysis, including: an institutional report, a national benchmark report, and some statistical analysis. Additional survey analysis can be purchased. Institutions can add their own questions, specific to their university needs, for an additional fee. Appendix F contains a listing and brief description of the national student surveys used by Florida institutions. Some universities participate to a greater extent than others. For example, one institution may participate in the National Survey of Student Engagement (NSSE) annually, while another may participate every other year.

Finally, institutional surveys being conducted by Florida universities were reviewed. This particular segment of the study focused on the five Florida universities designated by the Legislature to participate in the University Contract Study.

As reflected in Appendix F, all five institutions conduct student and employer satisfaction surveys. With respect to Student Satisfaction Surveys, all five institutions have participated in at least one national student survey. In addition, each university conducts a graduating student survey. The frequency of the student satisfaction surveys varies among institutions. The review of Employer Satisfaction Surveys revealed that all five institutions conduct Employer Satisfaction Surveys; however, the Employer Satisfaction Survey may be conducted at the institutional *OR* departmental level. Similar to the Student Satisfaction Surveys, Employer Satisfaction Survey frequency varies among institutions. Appendix F contains more detailed information on Student and Employer Satisfaction Surveys.

Recommendation:

26. The contract should ensure that sufficient feedback is being received from students and employers to assist in determining institutional quality.

The Southern Association of Colleges and Schools (SACS) Accreditation Requirements

Synopsis: Accreditation of an institution by the Commission on Colleges signifies the institution has a purpose appropriate to higher education and has resources, programs, and services sufficient to accomplish that purpose on a continuing basis. Accreditation is designed to determine whether an institution maintains clearly specified educational objectives that are consistent with its mission and appropriate to the degrees it offers and whether it is successful in achieving its stated objectives. SACS outlines characteristics or expectations for accreditation rather than standards (Commission on Colleges - Southern Association of Colleges and Schools, 2003).

Discussion: SACS is the regional body for accreditation of higher education institutions in the southern states awarding associate, baccalaureate, master's, or doctoral degrees.

The fundamental characteristics of accreditation outlined by the Commission on Colleges are these (Commission on Colleges - Southern Association of Colleges and Schools, 2003):

- Participation in the accreditation process is voluntary and is an earned and renewable status.
- Member institutions develop, amend, and approve accreditation requirements.
- The process of accreditation is representative, responsive, and appropriate to the types of institutions accredited.
- Accreditation is a form of self-regulation.
- Accreditation requires institutional commitment and engagement.
- Accreditation is based upon a peer review process.
- Accreditation is based upon an institutional commitment to student achievement.
- Accreditation acknowledges an institution's prerogative to articulate its mission within the recognized context of higher education and its responsibility to provide evidence it is accomplishing its mission.

- Accreditation expects an institution to develop a balanced governance structure designed to promote institutional autonomy and flexibility of operation.
- Accreditation expects an institution to ensure that its programs are complemented by support structures and resources that allow for the total growth and development of its students.

The Process of Accreditation: The process for initial and continued accreditation involves a collective analysis and judgment of an institution's internal constituencies, an informed review by peers external to the institution, and a reasoned decision by elected representatives to the Commission on Colleges. Institutions accredited by the Commission periodically conduct internal reviews involving their administrative officers, staffs, faculties, students, trustees, and others appropriate to the process. The internal review provides an institution the opportunity to consider its effectiveness in achieving its stated mission and its compliance with the accreditation requirements established by the Commission's membership. At the culmination of the internal review, peers who represent the higher education community assess an institution's compliance with the Commission's accreditation requirements and its efforts to enhance the quality of its programs and services (Commission on Colleges - Southern Association of Colleges and Schools, 2003).

In addition, the institution must maintain compliance with its program responsibilities under Title IV of the *1998 Higher Education Amendments* (Applies only to those institutions receiving Title IV funding.). In reviewing the institution's compliance with these program responsibilities, the Commission relies on documentation forwarded to it by the Secretary of Education (Commission on Colleges - Southern Association of Colleges and Schools, 2003).

Recommendation:

27. The contract should include a performance expectation that requires the university to maintain its SACS accreditation.

Department of Education Accountability Activities

Synopsis: Through the adoption of HB 915, the 2003 Legislature amended s. 1008.31, F.S., to provide additional direction to the Department of Education (DOE) regarding establishing a unified K-20 accountability system and developing proposals for performance-based funding.

Discussion: In response to the directives in HB 915, DOE established a K-20 Education Performance Accountability Project Task Force, with four additional task forces being created to represent the perspectives of each of the sectors in education (public schools, workforce development, community colleges and universities). The sector task forces will make recommendations to the K-20 Task Force.

The first statutorily-required work product of this effort is due by December 1, 2003. By that time, the State Board of Education is to adopt common definitions, measures, standards, and performance improvement targets. The performance-based funding recommendations are due by December 1, 2004, as specified in s. 1008.31(2)(f):

> By December 1, 2004, the Department of Education shall recommend to the Legislature a formula for performance-based funding that applies accountability standards for the individual components of the public education system at every level, kindergarten through graduate school. Effective for the 2004-2005 fiscal year and thereafter, subject to annual legislative approval in the General Appropriations Act, performance-based funds shall be allocated based on the progress, rewards, and sanctions established pursuant to this section.

Because the due dates for these products are subsequent to CEPRI's report on university contracts, it was not possible for CEPRI to take into consideration DOE accountability measures and performance-based funding recommendations regarding progress, rewards, and sanctions. However, these work products should be reviewed by the Board of Governors and the universities for possible inclusion in the multi-year contracts.

Recommendation:

28. The State Board of Education's definitions, measures, standards, performance improvement targets, rewards and sanctions should be considered during contract negotiations between the Board of Governors and the universities.

Higher Education Act (Reauthorization)

<u>Synopsis:</u> There have been several recent articles regarding university accountability concerns at the federal level. Attention seems to be focused on the federal Higher Education Act (HEA), which is due to expire September 30, 2004. Reauthorization of the Act will occur in 2003-2004; it will reexamine the Act's current programs and whether to make any changes to those existing programs. Standards and accountability measures may also be considered during the reauthorization process (Almanac of Policy Issues, 2003).

<u>Discussion:</u> HEA programs and activities fall primarily into four main categories: student financial aid, services to help students complete high school and enter and succeed in postsecondary education, aid to institutions, and aid to improve K-12 teacher training at postsecondary institutions. As reflected in Appendix G, possible topics for discussion during the reauthorization process include access, standards and accountability, college costs and prices, and student aid.

Since all Florida public institutions receive federal funds, it is important to stay current with the issues being discussed in the HEA. It is too early to tell the final outcome of the HEA Reauthorization. However, any significant changes would need to be taken into consideration during contract negotiations to ensure compliance with federal government regulations.

Recommendation:

29. Any significant changes to the federal Higher Education Act would need to be taken into consideration during contract negotiations to ensure compliance with federal government regulations.

Programs and Services

Synopsis: Proviso assigning the contract study to CEPRI included the following assignment:

> The Council for Education Policy Research and Improvement shall conduct a study of the feasibility of 5-year contracts between the State of Florida and the University of Florida, the State of Florida and Florida State University, and the State of Florida and Florida International University to provide programs and services at a level no less than that currently available to Florida residents. At a minimum the study shall identify the services and programs to be provided by each institution

Discussion:

Identification of Programs and Services: The most widely used descriptions of university programs and services are based on the following:

1. The National Center for Higher Education Management Systems (NCHEMS) Program Classification Structure to identify major activities and services and
2. The Classification of Instructional Programs (CIP) which is used to identify academic disciplines (History, Biology, etc.) within the major academic activities. The National Center for Higher Education Management Systems is a private nonprofit (501)(c)(3)organization whose mission is to assist colleges and universities as they improve their management capability.

The NCHEMS Program Classification Structure offers a framework for classifying a postsecondary education institution's resources, programs, and activities in relationship to the institution's objectives. The Program Classification Structure is designed to be compatible with the expenditure categories used by the NCHEMS *Higher Education Finance Manuals (HEFM) and the NACUBO College and University Business Administration-1974* (CUBA '74). These are basically the structures used in the annual SUS Expenditure Analysis and other standard reports such as those in the annual Fact Books. Appendix H presents the Program Classification Structure and the Classification of Instructional Programs.

The weakest part of these reporting structures is the artificial division of faculty effort into Instruction, Research and Public Service. The strength of the modern research university is based on the realization that these three activities can be combined in a way that provides more benefits to each than if they were performed individually. Faculty expose students to the cutting edge of their discipline through discussion of and participation in their public service and research projects. In summary, instruction, research and public service are often all aspects of the same activity, although the limitations of reporting require that faculty time spent on these activities must be divided into separate categories.

Services at a Level no Less than Currently Provided: With the narrow exception of a few programs initiated by the Legislature, the current programs in the university system have been initiated, maintained and terminated under university initiative and authority. The contract proposal would not provide a new opportunity to reduce services of the universities. On the other hand, technological advances could continue to provide opportunities for universities to fulfill their mission in new and more efficient ways as long as they have the flexibility to change.

Mandating the continuation of services would constitute a new degree of state management of universities that is contrary to the trend of the last 15 years. University boards of trustees are now empowered to make broad policy decisions regarding university programs and services, pursuant to Section 1001.74, F.S.. Specific subsections of this statute are notable:

Subsection 1001.74 (2), F.S.

> Each board of trustees is vested with the authority to govern its university, as necessary to provide proper governance and improvement of the university in accordance with law and with rules of the State Board of Education.

And, Subsection 1001.74 (7), F.S.

> Each board of trustees has responsibility for the establishment and discontinuance of degree programs up to and including the master's degree level; the establishment and discontinuance of course offerings; provision of credit and noncredit educational offerings; location of classes; services provided; and dissemination of information concerning such programs and services. Approval of new programs must be pursuant to criteria established by the State Board of Education.

Recommendation:

30. The contracts should specify performance outcomes, giving each university the flexibility it needs to achieve those outcomes within current law and rules.

Incentives and Penalties

One of the primary reasons given for implementing performance funding is to encourage high performance and discourage low performance. It seems that the obvious link between resources and performance should provide an automatic incentive for improved performance. The concept is simpler than the implementation, though. Funding mechanisms are established to reward performance by providing additional funds, but the additional state funds do not materialize in tight budget years. Policymakers consider budget cuts for institutions that do not perform well, but realize that such automatic cuts are counterproductive – they hurt students by causing reductions in programs and services that are supposed to be provided for their benefit. Such budget reductions also make it more difficult for an institution to improve its performance, when improved performance is really the goal. What mechanism, then, can be established for providing a balance between a realistic reward and a productive penalty?

One of the problems that must be considered in implementing a performance-based funding approach for universities is the long delay between decisions and outcomes. For example, it is only after the 5th year after initial enrollment that barely more than half of First-Time-in-College university students have graduated. Data can then be collected on the following year's employment and continuing education experience in order to assess the effectiveness of the educational experience. However, this data cannot be collected and presented to the Legislature until the following year when it can only be used to affect the appropriation for the year after that. If one or two years are added for preplanning and implementation of changes such as those that a performance funding approach is supposed to stimulate, the resultant timetable is clearly unworkable. It would take several years to see an improvement in graduation rates, for example, although programs may have been put in place immediately to improve performance on that measure.

Using the authority for tuition flexibility and the revenue it can produce as the reward in a performance approach offers the benefit of reducing the time necessary for the performance funding approach to work because it does not depend on an appropriation of rewards. Under this approach, if an institution meets its performance expectations, it would be given the ability to manage its tuition, thereby increasing its revenues if it so chooses. It also incorporates the free market mechanism of consumer demand because the institutions with the most demand will have the most opportunity to raise tuition. Further, the linkage of tuition flexibility and performance creates a financial reward system that does not require additional state dollars.

If the goal is to improve performance, then a mechanism should be in place to encourage improvement. The penalty for not meeting its performance expectations would be the threat of losing the ability to raise tuition. The university's budget will not be cut, but the institution would know it could lose the ability to raise more revenue through tuition increases if its performance does not improve. If a university does not meet a performance standard on any measure, it should be required to present a plan to the Board of Governors explaining the changes it will make to improve its performance on that measure. An update should be presented to the Board periodically until performance has improved. Such updates would ensure that both the university and the Board of Governors are monitoring the plan's implementation.

In addition to a plan being developed for the improvement of any performance standard not met, the ability of the institution to increase tuition should be linked directly to the institution's performance on certain critical measures, which should include student access. These measures should be clearly identified in the contract. If performance has not improved within one year, then the university should lose its ability to increase tuition until performance has improved.

Recommendations:

31. The authority for tuition flexibility and the revenue it can produce should be used as the performance funding reward for universities.

32. If any performance standards are not met, the *University* should present to the Board of Governors its plan for improving its performance on the measure(s). Updates on the plan's implementation should be presented to the Board until the university's performance has met the standard(s) specified in the contract.

33. If the performance standards for any critical measures are not met in a year, then the *University* should lose its ability to increase tuition until its performance has met those standards. The critical measures should be clearly identified in the contract and should include student access.

Data Collection

<u>Synopsis:</u> Data collection and reporting methods were examined in response to the directive in proviso specifying that, as a part of this study, CEPRI was to review "the procedures to be used to collect data to demonstrate compliance with the terms and conditions of each contract."

With the increased local control universities have been given, there have been concerns at the state level regarding the continuity of data collection.

<u>Discussion:</u> Florida universities have recently received increased local control of their data systems as each institution has or will be moving off the State Comptroller's system. In July 2003, five institutions moved off of the State Comptroller's system and began using a system of their choice. The remaining six schools will move off in July 2004. All 11 institutions have chosen to use one of two systems – SCT or PeopleSoft. Six months after each university is removed from the State Comptroller's system, each institution will also cease using the State's payroll system. Also, universities do have the authority to change other systems such as the student and personnel systems (Florida Department of Education, Personal communication, August 28, 2003).

With a number of changes occurring at each university, policymakers wanted to ensure that the quality of the data is being maintained at least at the same level as prior to the reorganization. Appendix I reflects the statutory requirements that assure the continued collection of critical data.

Data collected is housed in the DOE's Data Dictionary; a source for data information from all Florida state universities. Since acquiring more autonomy, reporting procedures for the universities have not changed. Each university must report information to the DOE on a weekly basis. Appendix I provides examples of the information that universities must report; this includes 15 data files with 451 data elements. Finally, information submitted by universities to the DOE is checked by the requesting office in the DOE to ensure quality. According to the DOE, at this time there are no technical problems when the universities submit their data using the new systems. All Florida universities are working together and with the DOE to maintain the same level and quality of data reported (Florida Department of Education, 2003b).

Recommendation:

34. The contract should require the university to maintain data and records in accordance with ss. 1001.74(16), 1001.75(17), 1008.31(4), F.S., and other applicable laws and regulations to ensure the quality and continuity of data needed for determining compliance with the terms and conditions of the contract.

ANTICIPATED OBSTACLES

As a part of the study on contracts, proviso directed CEPRI to include "any anticipated obstacles to successful implementation of such contracts." There are several challenges to developing and implementing a contracting process between the Board of Governors and the individual universities:

1. For this concept to work, it will have to be embraced by the Legislature, the Governor, the Board of Governors, and the universities' Boards of Trustees. The opposition from any one of these parties could prevent the successful implementation of a contractual process.

> CEPRI strongly feels that the contract approach provides an opportunity for defining system and university priorities, clarifying university missions, and linking performance with funding. It's a bold, creative and forward-thinking approach to university management and funding. It does, however, represent a change in the way business has been done in the past, and change is sometimes difficult to embrace. All parties are encouraged to contact CEPRI members or staff to discuss the positive policy implications of this proposal.

2. Implementation of tuition flexibility would require revisions to current practices and policies and/or the establishment of new procedures and policies to avoid negative consequences. Examples include: (1) Reconciliation of tuition flexibility with the Bright Futures and Prepaid Tuition Programs, and (2) Maintenance of access by low-income, place-bound, and part-time students.

3. Large budget reductions at either the state or federal level could impact a university's ability to meet its performance expectations.

> Budget reductions should have no impact on the successful implementation of a contract. Provisions have been made for renegotiating a contract at any point, so revised standards could be negotiated for performance measures that may be impacted by budget reductions.

SUMMARY AND CONCLUSIONS

The type contract proposed by UF and FSU required a 5-year funding commitment from the Legislature. Research regarding the legalities of such a contract made it very clear that such a commitment is not feasible. Research also unveiled the fact that the constitutional responsibilities of the Board of Governors make it the appropriate entity to negotiate a contract with the universities.

During the course of its study, CEPRI realized that the concept being proposed by UF and FSU could be expanded to provide a cohesive plan for the state university system. Expanding the concept would provide an exciting opportunity to define the mission of each university within the framework of a seamless K-20 system.

Three important conclusions were reached during the course of the study:

1. Tuition and fees are not the primary cost of attending a university and are not the primary contributor to the risk of making college unaffordable. The primary cost of university attendance is the time it takes to attain a degree. The typical pattern of taking five or more years for a full-time student to complete a degree is much more expensive than even large fee increases.

2. The very low tuition charged to resident undergraduates, particularly at the large doctoral-granting universities, is the primary difference between the funding of Florida's universities and the funding of public universities that are able to have a profound economic impact on their states.

3. The authority to raise tuition and out-of-state fees should be used as the performance incentive. In contrast, tuition flexibility can be handled administratively, providing an immediate response to performance.

The type of contract described in this report would provide a strong and direct link between performance and funding, thus ensuring that programs that support regional and state priorities, such as economic development, were being strengthened through new revenues from tuition and out-of-state fees, while providing a strong and direct link between performance and funding. The report also describes how tuition increases, combined with initiatives to facilitate student progression through to degree attainment, can actually save students money.

The contractual approach would be groundbreaking and would place Florida in the forefront of performance funding in higher education. Florida could quickly become a model for other states. The advantages of this approach provide real and significant benefits to the Legislature, the Governor, the Board of Governors, the universities, and students. The Council strongly believes that the contractual approach described in this study should be embraced and utilized.

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