Council for Education Policy, Research and Improvement

Equity of University Funding

Prepared in Response to Specific Appropriation 2705
Of the 2002 General Appropriations Act
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COUNCIL FOR EDUCATION POLICY, RESEARCH AND IMPROVEMENT

EQUITY OF FUNDING IN THE FLORIDA UNIVERSITY SYSTEM

EXECUTIVE SUMMARY

The proviso following Specific Appropriation 2705, CEPRI's Lump Sum, in the FY 2002-2003 General Appropriations Act (GAA) directs CEPRI to:

> *Study the equity of funding per student between universities within the university system and report its findings to the Chair and Vice Chair of the Legislative Budget Commission by January 1, 2003.*

In proviso preceding Specific Appropriation 166A, the State Board of Education is also required to conduct an equity study:

> *From the funds in Specific Appropriations 166A through 166C, the State Board of Education shall, by January 15, 2003, provide to the Governor, the President of the Senate, and the Speaker of the House of Representatives an analysis and report of the current status of equity in the Education and General funding of Florida's State University System. The study shall consider the impact of the following issues on the assessment of funding equity: university mission; enrollment by discipline and student course level; special appropriations by the Legislature and other issues as determined by the State Board of Education. The report shall discuss the policy choices available for consideration by the Legislature, which could be recognized by an equity funding formula, highlighting the advantages and disadvantages inherent in each choice.*

During the past ten years, the Legislature has appropriated almost $50 million for equity adjustments, using various methodologies. Concerns were raised again during the 2002 legislative session, however, leading to a new methodology and an appropriation for four universities, and directives to CEPRI and the State Board to study the issue.

Because the issue of equity has been approached from a number of different directions in the last decade, with inconsistent results, university presidents were asked to complete a survey to define the issues important to equity funding. The survey contained several open-ended questions to solicit their thoughts and opinions, as well as to document facts regarding equity. Concerns frequently expressed in the surveys were addressed in the study:

- Mission/Levels of Instruction
- Historical Inequity
- Special Appropriations
- Economy of Scale
- Age of Institution (in terms of physical plant maintenance and operations)
- Branch Campuses
- Faculty Salaries
- Discipline Mix

- Fee Waivers
- Part-time Students
- Regional Cost Differentials

Subsequent to the survey, one institution raised concerns about the "supplanting of General Revenue with out-of-state fees." This concern was also addressed in the study.

An analysis of equitable funding was approached from two fronts: issues raised by Florida's universities were reviewed and discussed using comparisons among Florida universities and between Florida universities and comparable universities across the country. The comparison to other states was for the purpose of providing a benchmark to typical or average practices. Substantial deviations from practices typical of higher education should be based on state policy decisions supported by an explicit rationale.

Public hearings were held on November 6, 2002, in Sarasota; December 11, 2002, in Jacksonville; and January 8, 2003, in Tallahassee. In addition, university personnel were given a copy of the draft report to review on December 4, 2002. They were asked to submit any comments in writing to give the Council an opportunity to take those comments into consideration. Drafts were also submitted to DOE staff, legislative staff, and staff in the Governor's Office for their review.

For purposes of this study, equity was defined in the following manner:

> Equity in Educational and General funding is the uniform application of a fair and consistent set of principles and funding factors for all state universities, which will allow each university to accomplish its defined mission within the K-20 system.

ASSESSMENT OF EQUITY OF FUNDING

Findings and Recommendations

The report is divided into two parts: Part I addresses recommendations for immediate consideration related to equity funding, and Part II includes issues that were determined to be outside the realm of the equity discussion at this time and that require further study.

Part I

Recommendations for Immediate Consideration

Mission/Levels of Instruction: Florida has provided its institutions with the opportunity to add graduate programs, which has resulted in six of the state's universities having their Southern Regional Education Board (SREB) classifications revised upward. As a result, Florida delivers relatively more instruction through its research universities and has less enrollment in bachelors and masters degree-oriented institutions than is typical in other states.

Funding per FTE for each institution was compared to its peers nationally. If equity in funding existed, the expectation would be that each Florida institution would have a similar percentage of funding compared to its U.S. peers. That is not the case. Three institutions receive more than the average of their peers, while seven receive less. In general, Florida funds universities that emphasize doctoral instruction at a lower rate than universities that offer only undergraduate and master's degrees, when compared to peer institutions. In fact, three of these universities, FSU, USF, and UCF, fall more than 10% below the U.S. average for their type of institutions. This appears to be a result of a dramatic reduction in funding for doctoral instruction for enrollment growth and the lack of a differentiated fee policy. An equity funding adjustment for an individual university should include a more detailed analysis than is included here. For example, are there special appropriations, such as those for agricultural extension services, that should be removed from these funding comparisons? Because of the lack of detail from other states, such adjustments were not possible in this study.

Recommendations:

1. **The current Southern Regional Education Board classification of each of Florida's universities should be adopted to reflect its mission for funding purposes until the Department develops a recommendation for a different designation. Changes to university mission designations for funding purposes should be based on a strategic plan that considers the overall role of the university system in supporting Florida's social and economic goals and the cost efficiency and cost effectiveness of the changes.**

2. **The formula currently used by the Legislature to fund enrollment growth should be adjusted by the Department of Education to recognize the instructional mission of research in doctoral degree programs.** An adjustment for this purpose could be easily incorporated into the funding formula by varying the percentage of funding for research that is added to instructional funding based on the level of instruction.

3. **Student fees should be differentiated by university classification.** Increases in fees at research universities could contribute to equitable funding relative to their peers. Increases in student fees should not be offset by reductions in General Revenue.

Historical inequity: The current funding formula was not designed to resolve longstanding disputes over funding. Instead, it is driven by each university's actual expenditures. As a result, the formula has become a method of institutionalizing legislative decisions that may be based on a more focused discussion of specific issues. Also, universities have flexibility in the use of their funds that can affect their future funding. Because the formula used for enrollment growth is primarily driven by past expenditures, all past funding decisions – whether at the state level or the local level - are institutionalized in the formula in some manner.

In order to assure a fair and consistent review of equity funding, and to prevent university end-runs to the Legislature using methodologies developed to achieve the desired outcomes, the following recommendations are made:

Recommendations:

4. DOE should develop and adopt a standard methodology for determining the equity of funding. The methodology should:

a. Primarily be based on each university's instruction and research mission, recognizing the relationship between advanced graduate instruction and research;

b. Provide for an equitable level of funding of each of Florida's universities relative to universities in other states that have similar missions; and

c. Make other funding adjustments only when substantiated by convincing evidence of a cost difference that cannot be addressed in any other way than by additional funds.

5. DOE should establish a fixed schedule (such as on a five-year basis) for periodic review of the accumulated differences in per-FTE funding for enrollment growth, using the adopted standard methodology each time a review is undertaken.

6. Any needed funding adjustments for equity should be included in the Department's Legislative Budget Request.

Special Appropriations: A major consideration in the treatment of equity is what to do about special, non-enrollment related appropriations. On the one hand, special appropriations are legislatively targeted to one or a few institutions and are therefore disequalizing if they are considered as part of funding that should be equalized through equity adjustments. On the other hand, special appropriations are often tied to initiatives by individual universities to provide special opportunities for the state that are often substantially funded by the federal government (examples include the FSU/UF Florida High Magnetic Field Lab, the FSU supercomputer and the UCF/USF I-4 corridor). In other words, if one university gets additional funding for a specific purpose (restricted funds), should the other universities then get additional funds to use for any purpose they please (unrestricted funds)?

An appropriate approach would be to focus equity considerations only on enrollment-related resources. Enrollment funding could then be carefully monitored, permitting identification of inconsistent funding policies that could be identified and reconciled by subsequent budget requests.

Recommendation:

7. Equity discussions should be limited to the enrollment funding formula, and proposed changes to correct inconsistent legislative funding policies should result in DOE recommending an adjustment to each university's base in the Legislative Budget Request.

Economy of Scale: Economy of Scale is the economic principle that the size or scale of operation is likely to affect the cost of one unit of production. In higher education, this means an increase in the size of the institution may result in reductions in the cost of a full-time equivalent student. Generally, higher education research finds that scale economies are off-set by the increased cost of program diversity and increases in graduate instruction among larger universities.

In 1972, the Carnegie Commission on Higher Education determined that for public comprehensive institutions, cost reductions began when enrollment reached between 1,000 and 1,300 full-time equivalent students, and among research and doctoral granting universities, when enrollment reached between 5,000 and 5,500 students.

All Florida universities, except Florida Gulf Coast University and New College, are larger than 5,000 students. All but Florida Gulf Coast University and the University of West Florida are among the top half in size of the 500 public universities used for inter-state comparisons in this study. New College, which recently became a free-standing college instead of a component of USF, has a planned enrollment of 561 FTE for 2002-03.Because it was not a freestanding college in 1999-2000, New College was not included in the database used for interstate comparisons.

Recommendation:

8. The funding levels of Florida Gulf Coast University and New College should be reviewed by DOE to assure that appropriate economy of scale adjustments have been provided.

Age of Institution: Several universities mentioned that it would be reasonable to review the impact of the age of the institution as it relates to physical plant operations and maintenance (PO&M) costs, indicating that facility maintenance requirements are correlated with the age, type and location of buildings.

Statistical tests failed to prove a relationship existed between the age of the institution, gross square feet, and expenditures per gross square foot. There are obvious disparities in expenditures, and the reasons those disparities exist would need to be explored further. For example, if an institution's expenditures per GSF are by far greater than any of the other universities, is it because the institution has made a local decision to allocate resources from other areas to correct deficiencies in the physical plant program, or because of inefficiencies in the management of the program that are creating higher costs, or is there some other reason that results in higher costs? Likewise, if an institution is spending less per GSF than other institutions are, is it because it is efficient

or because it is under-funded, or because the institution's leadership has given PO&M a low priority when allocating dollars? A more detailed review would need to be conducted.

Jointly with the Auditor General, the Office of Program Policy Analysis and Governmental Accountability (OPPAGA) conducts reviews of each school district to determine whether it is "using best practices adopted by the state's Commissioner of Education to evaluate programs, assess operations and performance, identify cost savings, and link financial planning and budgeting to district priorities." One of the areas reviewed is Facilities Maintenance; best practice indicators that are reviewed include mission statement, goals, accountability process, organizational structure and staffing, resource allocation and utilization, and information management. If state universities were to undergo a similar review by OPPAGA, needed improvements to the process could be identified; implementation of their recommendations could result in substantial cost savings, as has been the case in school districts. After ensuring that best practices are being employed, any cost differentials that still exist should be reflected in the formula for funding physical plant costs.

Recommendation:

9. To ensure that efficiencies in physical plant management are not affecting the cost per gross square foot, the Legislature should direct the Office of Program Policy Analysis and Governmental Accountability (OPPAGA) to conduct a Best Financial Management Practices review of the universities' physical plant programs in a manner similar to the reviews that are conducted for school districts. Such a review could ensure that the physical plant programs are managed in the most cost-effective manner possible.

Branch Campuses: Universities with branch campuses have expressed concern that, while branch campuses provide greater access to students, they create higher costs, mainly due to duplication of non-instructional functions, such as administration, libraries, and student support services. The universities have also indicated that instructional costs are higher because classes are usually smaller and there are faculty travel costs and stipends.

Accurate budget comparisons cannot be made concerning costs related to branches and centers due to the lack of detail and the lack of consistency in information reported by the universities for branches and centers. There is also a concern that FTE for branches and centers may not be reported in a consistent manner among the universities.

While the operating budgets were designed to reflect the prior year's expenditures for each branch and center, the Instructional and Research (I & R) portion of the expenditures is not reflected by level (Lower Level, Upper Level, Graduate I, Graduate II) as are the expenditures for Educational and General as a whole. Without that level of detail for the branches and centers, any cost comparisons would be misleading.

There is also a question about whether the branch campus operating budgets capture all of the additional costs associated with operating a branch campus or center. Are some universities capturing expenditures by the main campus in support of the branch campus, while other universities are not?

In order to make valid comparisons of costs among the branch campuses, it is necessary to have data that are collected and reported in a consistent and useful manner by all universities. Improvements need to be made to the current reporting process before such comparisons can be made.

Recommendations:

10. Working in conjunction with the state universities, the Division of Colleges and Universities (DCU) should ensure that FTE and operating budget data are defined and reported in a consistent manner by all universities, taking into consideration the following points:

a. There should be a direct correlation between FTEs submitted and operating budgets submitted, i.e., if FTEs are reported through the Student Data Course file for a center, then an operating budget should be reported for that center.

b. The operating budget for a branch or center should be distinct for that branch or center; it should not be combined with the budget of another branch or center for reporting purposes.

c. Actual expenditures and actual FTEs should be reported in the branches and centers operating budgets for each level of enrollment (Lower Level, Upper Level, Graduate I and Graduate II).

d. DCU should review the definitions of educational sites and the processes used for establishment of these sites in 6C-8.009, F.A.C. DCU should consider requiring FTE and budget data only for those branches and centers approved by the Board of Education.

11. As a part of conducting a review of the equity of funding of branch campuses, DOE should examine alternatives to reduce the cost of coordination and the movement of human resources inherent in the multiple site structure, as recommended by PEPC in 1988, to assure optimum efficiency in the delivery of services.

Part II

The discussion of additional issues for study are broken into two parts. Part II-A reflects the route the Council believes is the appropriate policy step for the state of Florida. Part II-B reflects issues that may be examined if the status-quo is largely maintained.

Part II-A

Discussion of Council Recommendations for Further Study

Rather than continue to fund universities based on traditional approaches, which continue to generate controversy, the Council believes it is appropriate for the State of Florida to consider new approaches which link funding to the achievement of state goals. An intensive study should be done of the method of funding higher education with the view towards a complete re-examination of concepts underlying it. This should include the possibility of abrogation of FTE-based and continuation funding and the ramifications of replacement with a more contractually based system. If universities are provided funding from the state based on identified state policy objectives, and authority is devolved to the extent practical to the boards of trustees over budget, tuition, financial aid and other policies, then policymakers could focus on whether the results that are needed are being achieved.

Possible approaches that could be explored include expanded local administrative and fiscal flexibility and authority, combined with better accountability for results and financial incentives to encourage desired behavior by universities and students. Behaviors that could be considered for reward include increased production of graduates in high-demand fields, formation of business-education partnerships, cooperative relationships with other sectors of education, and other activities that enhance the competitiveness of Florida's economy and provide opportunities for students.

Part II-B

Discussion of Issues for Further Study If the Status-Quo is Maintained

Faculty Salaries: For faculty salaries, variation exists in the degree to which Florida universities approach or exceed the national average of their peers based on the SREB peer criteria. However, a university could choose to use its funds to have more faculty with lower pay rather than fewer faculty with higher pay, so average salaries alone do not conclusively demonstrate a problem with equity funding.

Faculty salaries at Florida's Type I research universities are 10% less than their peers nationally. For Types 2 and 3, faculty salaries are 7% less than their peers. This may

present a challenge in the recruitment of quality faculty, since the market for these faculty is highly competitive.

Recommendation:

12. If concerned universities show that recruitment and retention of faculty is a problem, then DOE should research this issue for future budget requests related to quality improvement, not equity.

Disciplines: Discipline cost differences are clearly demonstrated in the annual expenditure analysis. While there is inarguably a difference in cost among disciplines, the fact that the mix of disciplines offered is now primarily a local decision by boards of trustees has removed this issue from the realm of state policy consideration. Universities have the option of reducing non-instructional expenditures or eliminating low-priority programs in order to implement a local decision to provide openings for more students in high cost disciplines. If there is a state need to expand or begin a particular discipline (such as engineering in the 1980s), it would be appropriate for DOE to pursue special funding from the Legislature.

Recommendation:

13. Since local boards of trustees now decide which undergraduate and Master's level programs to offer, discipline mix should not be given special consideration in equity determinations.

Fee waivers: Providing fee waivers is strictly a local decision; each university decides the types of waivers that will be provided, the number of students that will receive waivers, and the funding source of the waivers. Priorities of the university affect these decisions. For example, FAMU gives the largest amount of fee waivers for Honors students of any university in the system; FAU gives the largest amount in the system for Exchange students; FSU gives the most in the system for Music students, etc. This local flexibility is appropriate and is encouraged by the Legislature through proviso allowing the boards of trustees to waive fees. While the appropriations per headcount and per FTE vary by institution, it appears that, in general, the appropriations for institutions are in line with other state universities in their classification. The primary exception seems to be FAMU, which has received a higher level of funding than others in its classification

Recommendation

14. A separate formula should continue to be used to allocate appropriations for fee waivers. Because of the flexibility universities have in awarding fee waivers, though, they should not be given special consideration in determining the equity of overall funding.

Part-time students: The desire of some universities to take part-time students into consideration is based on the idea that it is less efficient to (as an example) provide support services to four students taking one three-hour course each rather than one student taking four different three-hour courses. A literature review and quantitative

analysis revealed no convincing relationship between funding levels and part-time enrollment. This is consistent with the historical use of this variable to distribute a small portion of university funding. However, part-time enrollment is a large and growing segment of enrollment at Florida's universities and should be subject to a more detailed examination than was possible within this study.

Recommendation:

15. Since part-time student enrollment has not been demonstrated to constitute a significant cost difference, it should not be given special consideration in equity deliberations at this time. Part-time enrollment is a large segment of enrollment at Florida's universities, however, and should be subject to a detailed examination by DOE. Before pursuing an equity adjustment for part-time students through legislative appropriations, DOE should ensure that alternatives to increased spending have been fully explored, such as the increased use of technology or increasing financial aid in order to decrease the number of students that need to attend part-time.

Regional Cost Differentials: Several of the universities listed local cost differences among issues to be included in a formula but no supporting documentation or detailed discussion was included. The Florida Education Finance Program (FEFP) includes a district cost differential among many other (sometimes off-setting) variables, such as the sparsity supplement and the minimum guarantee, which are not addressed in university funding. The community college formula developed by the Department of Education includes a district cost differential, but it has not been consistently used by the Legislature.

Universities have received funding based on local cost differences through the physical plant formula, as discussed above, and a salary supplement for career service (now University Support Personnel System, USPS) positions. Faculty are not recruited out of the local employment pool so a supplement to deal with local salary expectations has not been provided in the past. On the surface, it appears there is no need to make further adjustments for regional cost differentials, but if concerned universities show that a case can be made for such adjustments, DOE should review this issue on a system-wide basis. It is possible that empirical research could lend insight into this issue.

Recommendation:

16. No adjustments for regional cost differences appear justified at this time. However, if concerned universities can make a case for such adjustments in the future, DOE should review the issue on a system-wide basis.

Supplanting of General Revenue with Out-of-State Fees: In material presented to the Council in meetings, one of the universities raised as an equity issue the use of out-of-state fee revenue to fund enrollment growth, indicating that non-resident fee revenue was supplanting General Revenue (GR) support for in-state students in the formula.

The enrollment funding process begins with a total amount of funding per student by level and university. The anticipated fee revenue is subtracted from this total to determine the amount to be funded from General Revenue. The formula does not distinguish between in-state and out-of-state students. In other words, by level, the same amount of funding is provided for each student at a university, regardless of residency. Since out-of-state students pay higher fees than in-state students, the end result is that fees collected from out-of-state students are used to help defray the costs of educating in-state students. An analysis of the issue reflected that two issues emerge in the formula that funds enrollment growth: (1) out-of-state fees are used to off-set the costs of in-state students in general, and (2) out-of-state fees from undergraduate students are used to support graduate students.

The question then becomes, "Is the formula inequitable because of these issues?" This is really a policy question and the answer depends on one's perspective. On the one hand, if the perspective is one of subsidizing or equalizing the amount provided, so that each university receives a certain *total* amount per FTE, then the answer is "No, the formula is not inequitable because of this issue." On the other hand, if the intent is to provide an equal amount of *state* funding per FTE, giving each university the discretion to generate and expend additional fee revenue, then the answer to the question is "Yes, the formula is inequitable because of this issue." It does not provide an equal amount of state funding per FTE. If all universities were to receive the same level of General Revenue per student, then universities would be encouraged to enroll a larger percentage of undergraduate out-of-state students to generate a higher level of "profit," since they would be receiving – and keeping – the higher level of fees paid by these students, in addition to receiving a higher level of General Revenue for in-state students. Expanding the enrollment of undergraduate out-of-state students could limit resident students' ability to enroll in limited access programs. The Florida Administrative Code caps out-of-state enrollment at 10%, at the system level. Clearly, the priority is placed on providing access to in-state students.

Both sides of the issue can be argued. The formula uses the same methodology for each university. However, since each university chooses to admit varying levels of out-of-state students, some may receive less General Revenue support than others because they receive more revenue from out-of-state tuition. This is the same approach used for both public schools and community colleges: the total base is determined, then standard fees (and other local funds) are subtracted, leaving the difference to be funded from General Revenue. Equity, then, is judged in terms of total resources provided per student, not General Revenue provided per student.

The same rationale used above could be used to defend a different perspective: if all universities were to receive the same level of GR per student, then universities would be encouraged to enroll a larger percentage of undergraduate out-of-state students. This could be a desirable effect, if the goal was to encourage universities to improve their programs to entice out-of-state students as a way to promote economic development and provide the enrichment of having a more diverse student body.

Recommendation:

17. This issue should be reviewed after state policymakers determine the desired outcome relating to issues such as enrolling out-of-state students and setting and expending their fees, i.e., do they want to encourage revenue generating activities which subsidize university operations, subject to appropriate controls, or do they want to equalize total state funding?

INTRODUCTION

Legislative Charge

The proviso following Specific Appropriation 2705, CEPRI's Lump Sum, in the FY 2002-2003 General Appropriations Act (GAA) directs CEPRI to:

> Study the equity of funding per student between universities within the university system and report its findings to the Chair and Vice Chair of the Legislative Budget Commission by January 1, 2003.

In proviso preceding Specific Appropriation 166A, the State Board of Education is also required to conduct an equity study:

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Overview

History: Differentiated funding is common in higher education because of differences among institutions in mission. The variation in cost between lower division instruction and doctoral instruction at universities is much more extensive than among K-12 or community college programs. Adding even more complexity is the "joint product" of many faculty activities. When faculty work with students who are pursuing a research degree (most doctoral degrees and graduate degrees in scientific disciplines, some undergraduate honors degrees, etc.), time spent working with students on a research project can have as much instructional as research benefit (Romney, 1971, Shulman, 1980, Clarke 1987).

Equal access to instructional programs, regardless of location, is the basis of most equity issues for public schools and community colleges. In contrast, universities are more likely to specialize and have unique instructional, research and public service missions. The question periodically raised by various universities is whether they have been fairly funded to provide this broader and more individualized mission relative to other universities.

Several equity movements during the past 30 years have dealt with funding differences among Florida universities. In the early 1970s, enrollment funding underwent a major change. Instead of providing one level of funding for masters programs and a much richer level of funding for PhD programs, as had been done in the past and is often done in other states, funding was provided through two new categories of "classroom instruction" and "thesis and dissertation instruction". This served to diminish the funding differences between universities at that point (Report of the Special Committee on Equity Funding, July 13, 1984). However, concerns about equity continued to grow during the early 1980s, as reflected in a 1993 Board of Regents report, "Proposed Funding Model", that was submitted to the Legislature:

> As new universities evolved and established ones continued to grow, the state's resources were stretched to meet needs. Depending on when enrollment growth occurred, a university may have received relatively more or fewer resources than another university received for comparable growth during a different period. Further, funding for special programs, sometimes unrelated to enrollment, was provided by the Legislature to certain universities in varying amounts. These events, along with the resulting effects of differences in universities' ability and willingness to achieve or exceed planned enrollment goals, coupled with legislative and Board of Regents action to hold harmless certain enrollment shortfalls, led to growing concern about the inequitable distribution of the resources provided to the State University System.

In 1984, the equity issue was analyzed by a task force appointed by the Chancellor of the State University System; the task force determined that an inequity existed. The Legislature provided $2 million for an equity adjustment for two institutions in 1984-85.

Concerns about an equitable distribution of funds continued, however. In 1986, the Legislature required the Board of Regents to develop a "written, understandable and objective funding model for requesting, appropriating and allocating resources on an equitable, mission oriented basis among the universities." After accepting part of the formula, the 1987 Legislature required the Board to conduct further analysis of other parts of the formula. After reviewing the new methodology approved by the Board, the 1988 Legislature authorized the Board to implement the new formula for requesting and allocating resources, but the Legislature itself continued using a different formula for appropriating resources to the universities.

However, the equity discussion continued. The next review of the funding formulas was done by the Postsecondary Education Planning Commission (PEPC), in response to proviso in the 1991-92 GAA. Proviso specified that:

> The study shall include an assessment of the extent to which funds are allocated on an equitable basis for comparable programs across the State University System, including the special unit entities. The study shall also assess the extent to which the need for facilities is being addressed on an equitable basis for each university.

PEPC recommended that the Legislature convene a task force to develop a consensus formula; specific recommendations were also made for adjustments to the formula. As

a result of these recommendations, proviso language in the 1993-94 GAA directed the Board of Regents to convene such a task force.

In part, proviso in the 1993-94 GAA duplicated the language in the 1986 GAA: the Board was required to "develop a written, understandable and objective funding model for requesting, appropriating and allocating resources on an equitable, mission oriented basis among the universities." While a new formula was subsequently adopted, it was based on a methodology to equitably allocate new funds to institutions; it did not affect the base funding for universities. Some universities felt that the base itself was inequitable and needed to be adjusted. Convening at the request of the Chancellor, university representatives determined that $30.7 million was needed to resolve the equity issue; this amount would address the per-FTE disparities. On January 21, 1994, the Board of Regents approved an amendment to the Legislative Budget Request for half that amount, $15.4 million, with the intent of requesting the remaining funds in the subsequent year. The Legislature responded by appropriating $30.8 million over a four-year, rather than two-year, period: $5.25 million in 1994-95; $5 million in 1995-96; $5 million in 1996-97; and $15.5 million in 1997-98. With the appropriation in 1997-98, the Legislature had fully funded the need identified by the university system in January 1994.

On March 14, 1997, the Board of Regents approved another equity plan for the University of Central Florida and the University of North Florida. The plan was for a total of $9.65 million; according to the BOR agenda item, the need to enhance undergraduate education at these institutions was due to "historic under-funding of instruction and student academic support services at both institutions." The Legislature responded by appropriating $5 million to address this plan in FY 1997-98, and $4.65 million in 1998-99.

Concerns about equity continued, though. In response to the issue being raised during the 2002 Legislative session, the Legislature appropriated a total of $9 million for USF, UCF, FIU, and UNF. The Legislature also directed the State Board of Education and CEPRI to conduct studies on the current status of equity in state university funding.

Table 1 summarizes the almost $50 million in appropriations for equity that have been provided since 1994-95 to state universities, and Table 2 shows how the Department of Education allocation indicated that those funds would be used.

Table 1
Summary of Equity Appropriations Since 1994-95

	UF	FSU	FAMU	USF	FAU	UWF	UCF	FIU	UNF	SUS
1994-95	924,477	321,255	13,561	1,041,868	71,507	132,171	1,707,261	611,889	426,011	5,250,000
1995-96	880,454	305,957	12,915	992,255	68,102	125,877	1,625,963	582,751	405,726	5,000,000
1996-97	880,454	305,957	12,915	992,255	68,102	125,877	1,625,963	582,751	405,726	5,000,000
1997-98	2,737,704	951,348	40,159	3,085,338	211,758	391,404	5,055,805	1,812,020	1,261,570	15,547,106
	5,423,089	**1,884,517**	**79,550**	**6,111,716**	**419,469**	**775,329**	**10,014,992**	**3,589,411**	**2,499,033**	**30,797,106**
1997-98 Supplamental Plan							3,626,943		1,373,057	5,000,000
1998-99							3,373,057		1,276,943	4,650,000
Subtotal	**5,423,089**	**1,884,517**	**79,550**	**6,111,716**	**419,469**	**775,329**	**13,388,049**	**3,589,411**	**3,775,976**	**40,447,106**
2002-2003				2,820,816			2,771,973	2,429,037	978,174	9,000,000
Total	**5,423,089**	**1,884,517**	**79,550**	**8,932,532**	**419,469**	**775,329**	**16,160,022**	**6,018,448**	**4,754,150**	**49,447,106**

Source: 1994-95 through 2002-2003 State University System and DOE allocation documents.

Table 2
Summary of Planned Expenditures on Equity Appropriations

	UF	FSU	FAMU	USF	FAU	UWF	UCF	FIU	UNF	SUS
I&R	3,922,950	-	-	261,278	-	-	10,101,448	-	3,073,583	17,359,259
Other Activities	-	-	-	-	-	-	-	-	-	-
Library	1,500,139	1,303,714	79,550	836,594	-	201,702	628,544	386,816	427,755	5,364,814
University Support	-	580,803	-	6,760,848	419,469	573,627	4,677,637	5,319,532	1,251,650	19,583,566
Plant Op & Maint	-	-	-	-	-	-	-	-	-	-
Student Services	-	-	-	1,073,812	-	-	1,006,279	312,100	97,276	2,489,467
Financial Aid	-	-	-	-	-	-	-	-	-	-
Not Specificed	-	-	-	-	-	-	3,373,057	-	1,276,943	4,650,000
Total	**5,423,089**	**1,884,517**	**79,550**	**8,932,532**	**419,469**	**775,329**	**19,786,965**	**6,018,448**	**6,127,207**	**49,447,106**

Source: 1994-95 through 2002-2003 State University System and DOE allocation documents.

Growth: One reason for the need to constantly reassess the funding of Florida universities is the extraordinary growth that has occurred over the past 30 years. While funding for public schools is provided at the average cost per FTE of instructional and support functions for each program, funding for enrollment growth at state universities is provided at a lower rate. Except for a few years during the 1990's, funding has been based on the average cost per FTE for instruction but only on a percentage of the average cost per FTE of research, public service, administrative and support activities. This is one reason for the amount of equity funding that has been spent on administration and support. Table 3 shows the amount growth of the State University System over an almost 30 year period while Figure 1, illustrates the steady distribution of that growth over time. Note the dramatic growth of UCF and FIU in Figure 1.

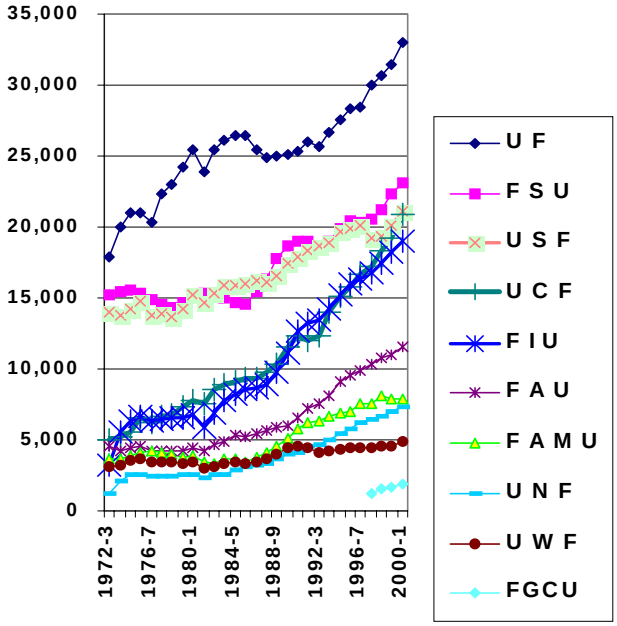
Table 3
FTE Growth in Enrollment in Florida Universities

	1973	2001	% Increase
U F	17,937	33,055	84%
F S U	15,209	23,144	52%
F A M U	3,696	7,845	112%
U S F	14,022	21,148	51%
F A U	4,535	11,542	155%
U W F	3,146	4,883	55%
U C F	4,999	20,936	319%
F I U	3,177	18,984	498%
U N F	1,202	7,329	510%
FGCU	0	1,940	
S U S	67,923	150,805	122%

Source: Florida Department of Education

Figure 1

Thirty Year Growth of Florida Universities



Source: Florida Department of Education

Current Funding Process: As mentioned above, the Board of Regents was required by proviso in the 1993-94 GAA to "develop a written, understandable and objective funding model for requesting, appropriating and allocating resources on an equitable, mission oriented basis among the universities." The Funding Formula Committee appointed by the Chancellor proposed a funding model that was approved by the Board of Regents on December 3, 1993. Since that time, with minor modifications, the formula has been used by the Board (and subsequently by FBOE), and portions of it have been used by the Governor's Office, and the Legislature.

The formula does not reallocate funds among the universities; their base is left intact, unless specifically cut by the Legislature. "The formula" is actually three distinct formulas under one umbrella: one, the formula for E&G instruction and support, is used to generate funds for enrollment growth; one is used for library resources and one is used to generate funds for operating and maintaining new buildings that are scheduled to open during the fiscal year. As stated in the report approved by the Board of Regents, "The formula for E&G instruction and support is dependent upon three elements: (1) undergraduate and graduate planned enrollment FTE's; (2) the Base Student Allocation (BSA); and (3) university-specific cost factors for undergraduate and graduate instruction, research, public service, academic advising, academic administration, university support, student services, library/audio visual less library resources and salary rate." The formula was designed in this manner to allow policy decisions to be translated into budget adjustments by simply changing the cost factor or the BSA in the formula. The university-specific cost factors are based on the actual

expenditures for each university as reported in the annual expenditure analysis. As a result, instruction-related appropriations outside the formula are incorporated as soon as they show up as expenditures.

The formula which generates funds for library resources is dependent on faculty FTEs in addition to planned enrollment. According to the 1993 report:

> *The process for generating the library resources budget is a three step process: (1) calculate the weighted enrollment and weighted faculty for each university and Special Unit using the planned enrollment FTE's, faculty FTE's and the weights for the respective level of enrollment; (2) multiply each university's and Special Unit's weighted planned enrollment by their respective cost factors and multiply this result by the Basic Book Allocation (BBA); and, (3) for each university and Special Units add together the results of the preceding calculations to obtain the budget for library resources.*

The library formula has been used by the Board for requesting and allocating funds, but it has not been used by the Legislature to appropriate funds.

The formula that is used to generate funds for PO&M involves multiplying the gross square footage (GSF) for each university by its respective cost factors for utilities and operations and maintenance. This formula is described in more detail later in the report.

In addition to the formulas used, special appropriations are usually requested by the State Board for specific projects or purposes, and, likewise, the Legislature typically appropriates funds to specified universities for specific projects or purposes. Examples of non-formula appropriations in the current 2002-03 GAA are: $5 million for the Alzheimer's Center and Research Institute at the University of South Florida; $10.4 million for specific branch campuses and centers to increase the number of courses and programs; and $30 million for the University Centers of Excellence. Some argue that these earmarks create an inequitable, or unfair, base for universities, but others argue that such appropriations are reflective of the missions of universities, and thus are not reflective of unfairness in the budgeting process.

Guiding Principles for Funding Methods: As reflected in Appendix A, the Southern Regional Education Board's "A Primer on Funding of Public Higher Education" included 12 guiding principles for funding methods:

> *Some principles can counteract each other. For instance, the desire for a simple-to-understand funding process may preclude features that might contribute to greater equity (such as more detailed subcategories to reflect institutional differences). Similarly, a technique that responds to enrollment changes may not provide the desired level of stability. A funding method needs to achieve a reasonable balance among all the principles if it is to be widely accepted.*
>
> *A funding method for public colleges and universities should:*
>
> - *Be based on the state goals for postsecondary education.*

- *Be sensitive to colleges' different missions.*
- *Provide adequate funding*
- *Provide incentives for or reward performance.*
- *Appropriately recognize size-to-cost relationships.*
- *Be responsive to changing demands.*
- *Provide reasonably stable funding.*
- *Be simple to understand.*
- *Fund colleges and universities equitably.*
- *Make provisions for funding special-purpose units.*
- *Use valid, reliable data.*
- *Allow administrative flexibility in spending funds.*

Finally, a funding method should balance the principles listed above. For example, the desire for simplicity must be weighed against the demand for equity. Similarly, responsiveness to changing conditions must be measured against stability in funding.

These principles may be useful in evaluating the discussion that follows.

Performance Funding: Section 1008.31(2), F.S. requires the State Board of Education to "develop proposals for performance-based funding, using performance measures established by the Legislature. The proposals must provide that at least 10 percent of the state funds appropriated for the K-20 education system are conditional upon meeting or exceeding established performance standards." The proposal for the state universities was due to the Legislature by December 1, 2002.

Study Methodology

Survey of Universities: Because the issue of equity has been approached from a number of different directions in the last decade, with inconsistent results, university presidents were asked to complete a survey to define the issues important to equity funding. The survey (Appendix B) contained several open-ended questions to solicit their thoughts and opinions, as well as to document facts regarding equity. Appendix C is a compilation of their responses, or the responses of their designees. Details of survey responses will be discussed throughout the report.

Institutional Comparisons: An analysis of equitable funding was approached from two fronts: the issues raised by Florida's universities were reviewed and discussed using comparisons between Florida universities and between Florida universities and comparable universities across the country. Data for FGCU and New College are shown when available, but these new institutions have not been involved in the equity appropriations that are a focus of this report.

Appendix D discusses the sources of data and the classification systems used for the peer analyses.

Note: The comparison to other states is for the purpose of providing a benchmark to typical or average practices. It is recommended that substantial deviations from practices typical of higher education should be based on state policy decisions supported by an explicit rationale.

Public Input: Public hearings were held on November 6, 2002, in Sarasota; December 11, 2002, in Jacksonville; and January 8, 2003, in Tallahassee. In addition, university personnel were given a copy of the draft report to review on December 4, 2002. They were asked to submit any comments in writing by December 9, to give the Council an opportunity to take those comments into consideration. Drafts were also submitted to DOE staff, legislative staff, and staff in the Governor's Office for their review.

Definition of Equity

When asked "Do you believe there is an equity funding problem among institutions within the state university system?", all 11 universities answered yes. The causes given by any one university, though, often contradicted causes given by another university, underscoring the fact that:

> *By its very nature, viewpoints on whether equity has been achieved in the allocation of scarce resources –like beauty—is in the eye of the beholder. Even at the conceptual level, consensus on a definition of equity is difficult to achieve.* (An Analysis of the Processes Used to Fund the State University System of Florida, prepared by MGT of America, Inc. for PEPC, Dec. 23, 1991)

For purposes of this study, equity was defined in the following manner:

> Equity in Educational and General funding is the uniform application of a fair and consistent set of principles and funding factors for all state universities, which will allow each university to accomplish its defined mission within the K-20 system.

ASSESSMENT OF EQUITY FUNDING

Findings and Recommendations

The report is divided into two parts: Part I addresses recommendations for immediate consideration related to equity funding, and Part II includes issues that were determined to be outside the realm of the equity discussion at this time and issues that require further study.

Part I

Recommendations for Immediate Consideration

Mission and Level of Instruction

Synopsis: University responses supported the use of mission in assessing equity to differentiate funding. They also supported the position that specific measures such as disciplines, degree levels, extent of research activities, branch campuses, and institution size reflect differences in mission. A common recommendation was that:

> *Equity should be defined as a funding model in which each university receives approximately the same dollars to accomplish its particular mission.*

Another university noted that the current formula does not adequately fund the mission of some universities.

> *Public Service is not funded and Research is only partially funded in the enrollment funding formula thereby disadvantaging universities who by their mission spend a greater proportion of their budget for these activities.*

While universities made frequent use of the term "mission" in their responses, there is little detail in state statutes that would make clear definition of the mission of each of Florida universities in a way that could be used to distinguish between them. In order to provide this differentiation, the funding pattern of Florida's universities was compared to the average of the U.S. universities defined as "peers" using several different methodologies.

Appendix D presents the major university classification systems developed by the Southern Regional Education Board (SREB), the Carnegie Commission on Higher Education and the Carnegie Commission for Teaching. These systems differentiate universities based on the extent and diversity of the graduate instruction and research functions of the universities. The factors used for differentiation in these systems can be compared to factors used to differentiate university funding in other states.

In the survey of Florida universities, all supported the use of instructional level in the review of equity of funding. All except UNF supported the typical pattern of increased

funding for higher levels of graduate instruction as discussed in the section on national comparisons. UNF's response to the equity survey included the following statements:

> *Such a definition (of equity) should also utilize weightings for other variables, including mission and the array of programs offered. Primary among these is institutional mission. For example, to provide the quality of undergraduate education that Florida citizens should expect of their comprehensive universities, these institutions must be allocated more dollars per undergraduate FTE than universities designated as research universities. This is due to a number of factors including a lack of qualified doctoral students to serve as teaching fellows and the national expectation that quality comprehensive institutions will focus on undergraduate education.*

National Comparisons: The set of comparisons in Table 4 used the Southern Regional Education Board (SREB) classification system. The SREB-State Data Exchange has supported comparisons between states and institutions for over 30 years. The SREB system for categorizing postsecondary education institutions is designed for use in making statistical comparisons among states and is based on a number of factors relevant to determining resource requirements. Differences in institutional size (numbers of degrees), role (types of degrees), breadth of program offerings (number of program areas in which degrees are granted), and comprehensiveness (distribution of degrees across program areas) are the factors upon which institutions are classified. More detail concerning this classification system and the Carnegie system used later are described in Appendix D.

Table 4

The Southern Regional Education Board System of Classifying Institutions of Higher Education

1	Four-Year 1 - at least 100 doctorates per year among at least 10 CIP categories (2-digit classification) with no more than 50 percent in any one category.	UF, FSU, USF
2	Four-Year 2 - at least 30 doctorates per year among at least 5 CIP categories (2-digit classification).	FAU, UCF, FIU
3	Four-Year 3 - at least 100 graduate degrees distributed among at least 10 CIP categories (2-digit classification).	FAMU, UWF, UNF
4	Four-Year 4 - at least 30 graduate degrees distributed among at least 5 CIP categories (2-digit classification).	
5	Four-Year 5 Institutions awarding at least 30 graduate degrees.	FGCU
6	Four-Year 6 - less than 30 master's, education specialist, post-master's or doctoral degrees.	

Source: Southern Regional Education Board

The data reflect 2000-01 institutional reports to the Integrated Postsecondary Education Data System (IPEDS)[1]. The IPEDS reports are also described in Appendix D.

Table 5 illustrates some of the differences between institutions in the various classifications.

Table 5

Selected Average Characteristics of U.S. Universities by Type[2]

US Averages by Type	1	2	3	4	5	6
Student FTE[3]	24,026	13,175	9,815	6,131	3,238	2,376
Number of Disciplines with Doctoral and 1st Professional Degrees	58	20	4	1	0	0
Number of Doctoral and 1st Professional Degrees Awarded	550	128	30	13	4	-
All Degrees Awarded	6,278	3,272	2,342	1,369	755	447
Contracts and Grants	200,815,819	54,507,566	24,582,432	17,695,423	7,352,906	5,562,232

Source: CEPRI analysis of a database prepared by the Department of Education from sources described in Appendix D.

This table illustrates that size, complexity and diversity of degree offerings, doctoral programs, and extensive research programs all tend to occur at the same institutions.

Table 6 shows the same data for Florida universities. Florida universities generally follow the same pattern except that the average size for types one and two is very large in Florida and the number of doctoral and first professional degrees is small for type 2 and large for type 3. The type 3 anomaly is attributable to the 1st Professional degrees granted through the Pharmacy program at FAMU. The low production of advanced degrees for type 2 is due to the relatively low production of doctoral graduates in 2000-01 at FAU, which appears to be an anomaly.

[1] IPEDS is the core postsecondary education data collection program of the National Center for Education Statistics (NCES). It is a single, comprehensive system that encompasses all identified institutions whose primary purpose is to provide postsecondary education.

[2] Classification types are explained in Appendix D.

[3] FTE or Full Time Equivalent is a measure of student enrollment designed to measure full time and part time student enrollment as if all students were full time. There are several ways to measure FTE. Florida is unique in the country in measuring FTE in terms of 12-month vs. 9-month enrollment. Since credit hour enrollment is not available from the IPEDS data used in this report, FTE was calculated a full-time plus one-third part-time headcount (9-month).

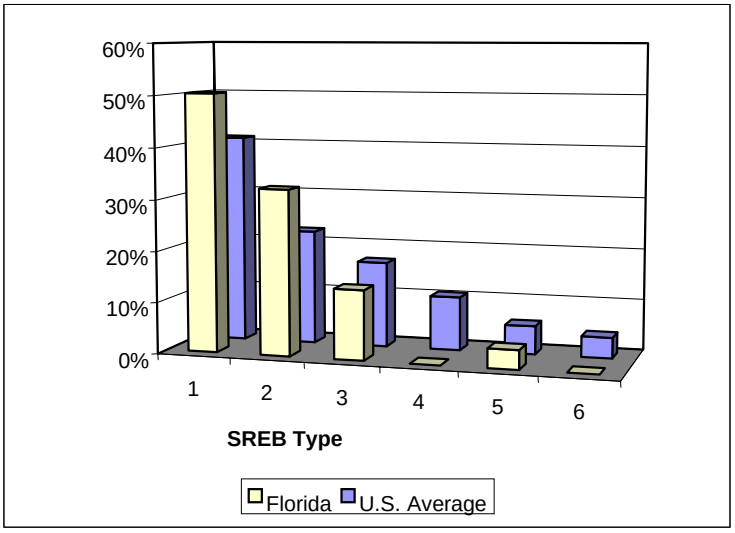
Table 6
Selected Characteristics of Florida Universities

Florida Averages by Type	1	2	3	4	5	6
Florida University	UF, FSU, USF	FAU, UCF, FIU	FAMU, UWF, UNF		FGCU	
FTE	32,028	20,498	8,630		2,351	
Number of Disciplines with Doctoral and 1st Professional Degrees	55	17	3		0	
Number of Doctoral and 1st Professional Degrees Awarded	711	64	74		0	
All Degrees Awarded	8,967	5,879	2,192		657	
Contracts and Grants	185,818,946	61,867,280	30,013,082		6,594,919	

Source: CEPRI analysis of a database prepared by the Department of Education from sources described in Appendix D.

Figure 2 compares the percentage distribution of enrollment by SREB type of university. Note that Florida delivers relatively more instruction through type 1 and 2 research universities and has less enrollment in bachelors and masters degree-oriented teaching institutions than is typical in other states.

Figure 2
Distribution of Florida and U.S. Enrollment by Type of University



Source: CEPRI analysis of a database prepared by the Department of Education from sources described in Appendix D.

One reason for this pattern is that Florida has provided its institutions with the opportunity to add graduate programs, which results in their classifications being revised upward. Table 7 illustrates the changes in the SREB classifications of Florida universities since 1986.

Table 7

SREB CLASSIFICATION CHANGES FOR FLORIDA UNIVERSITIES

		Changes to Classification				2000-2001
UNIVERSITY	1986-87	1994-95	1996-97	1998-99	2000-01	Final
UF	4 YR I	"	"	"	"	4 YR I
FSU	4 YR I	"	"	"	"	4 YR I
USF	4 YR II	"	4 YR I	"	"	4 YR I
FAU	4 YR III	4 YR II	"	"	"	4 YR II
UCF	4 YR III	"	4 YR II	"	"	4 YR II
FIU	4 YR III	"	"	4 YR II	"	4 YR II
UWF	4 YR III	"	"	"	"	4 YR III
FAMU	4 YR IV	"	"	4 YR III	"	4 YR III
UNF	4 YR IV	"	"	"	4 YR III	4 YR III
FGCU	NA	NA	NA	NA	4 YR V	4 YR V

Source: Southern Regional Education Board.

Table 8 shows how universities are classified and compares the funding of Florida universities to the U.S. average of their classifications. The data for this table include all state funding (both enrollment-related and non-enrollment related funding), local funds, student fees, and all students. The table displays the funding per FTE for each university and the national average for the medical and non-medical institutions within each category as reported to the U.S. Department of Education on the 1999-2000 IPEDS survey. Data for medical institutions are shown separately because of the extra costs associated with this function. For each Florida university, the percent its funding is of the US average in its current category is also displayed.

Table 8

Funding per Student FTE in 1999-2000

	SREB Classification			
	1	2	3	5
Medical	$ 17,184			
Non-Medical		$ 11,386	$ 9,643	$ 9,465
HBCU			$ 10,627	
UNIVERSITY OF FLORIDA	$ 15,858			
Percent of Medical Average	92%			
FLORIDA STATE UNIVERSITY	$ 11,409			
Percent of Medical Average	66%			
UNIVERSITY OF SOUTH FLORIDA	$ 13,436			
Percent of Medical Average	78%			
FLORIDA ATLANTIC UNIVERSITY		$ 11,180		
Percent of Non-Medical Average		98%		
FLORIDA INTERNATIONAL UNIVERSITY		$ 10,207		
Percent of Non-Medical Average		90%		
UNIVERSITY OF CENTRAL FLORIDA		$ 8,713		
Percent of Non-Medical Average		77%		
FLORIDA A&M UNIVERSITY			$ 11,498	
Percent of HBCU Average			108%	
THE UNIVERSITY OF WEST FLORIDA			$ 10,945	
Percent of Non-Medical Average			114%	
UNIVERSITY OF NORTH FLORIDA			$ 9,093	
Percent of Non-Medical Average			94%	
FLORIDA GULF COAST UNIVERSITY				$ 15,150
Percent of Non-Medical Average				160%

Source: CEPRI analysis of a database prepared by the Department of Education from sources described in Appendix D.

If equity in funding existed, the expectation would be that each Florida institution would have a similar percentage of funding compared to its U.S. peers. As shown in Table 8, that is not the case. Three institutions receive more than the average of their peers, while seven receive less. In fact, three of the universities, FSU, USF, and UCF, fall more than 10% below the U.S. average for their types of institution. An equity funding adjustment for an individual university should include a more detailed analysis than is included here. For example, are there special appropriations, such as those for agricultural extension services, that should be removed from these funding comparisons? Because of the lack of detail from other states, such adjustments were not possible in this study. Similarly, funding for Florida Gulf Coast is high compared to its peers because the university is new and is expected to grow relatively rapidly in order to help to accommodate Florida's growing demand for postsecondary education. At 2,351 FTE (using this methodology) the university is below the category average size of 3,238. FAMU is slightly above its Historically Black College and University (HBCU) peers. FAMU is compared to HBCUs because of additional state funds provided to these universities,

primarily to eliminate vestiges of formerly segregated systems of higher education. For example, in 1998 Florida and the federal Office for Civil Rights formed a partnership to continue efforts to provide opportunities for minorities in the state, including enhancing programs at FAMU.

Note that this analysis compares Florida universities to all the universities in the country in their SREB classification. This is one approach to identifying peers; there are others, as shown in Table 9. The Department of Education prepared several different methodologies to identify peer universities; revenue per FTE for Florida universities was then compared to that of these peers.

In Table 9, the column labeled "Current Funding" portrays each university's current funding per FTE. The "Self-Selected Peers" column reflects each university's own peer group (note: this may include aspirational peers). The other columns reflect the average of peers selected through a factor analysis from among similarly classified institutions using the SREB, 1994 Carnegie, and 2000 Carnegie classifications (these classification systems and the factor analysis are described in Appendix D). In order to further contrast with the analysis described above, and place more emphasis on the factor analysis than the classification systems, peers were selected from among two adjacent classifications.[4]

Table 9
Comparison of Revenue per FTE Between Florida Universities and Peer Universities

	$/ FTE	%of Peers
UF	15,858	
Self-Selected Peers	17,639	90%
Peers From Old Carnegie Categories 11-12	15,419	103%
Peers From New Carnegie Categories 15-16	16,248	98%
Peers From SREB Categories 1-2	15,631	101%
U.S. Average of SREB Category 1-Medical	17,184	92%
Average of Peers Except Aspirational		**98%**
Average of Peers Except All Self Selected		**99%**
	$/ FTE	%of Peers
FSU	11,409	
Self-Selected Aspirational Peers	18,456	62%
Self-Selected Peers	13,849	82%
Peers From Old Carnegie Categories 11-12	12,431	92%
Peers From New Carnegie Categories 15-16	13,680	83%
Peers From SREB Categories 1-2	11,246	101%
U.S. Average of SREB Category 1 - Medical	17,184	66%
Average of Peers Except Aspirational		**87%**
Average of Peers Except All Self Selected		**88%**

[4] Under the 1994 Carnegie column, Research I and II universities were combined, Doctoral I and II universities were combined, and Masters I and II universities were combined. Under the 2000 Carnegie column, Doctoral/Research I & II were combined (all Florida universities except FGCU). Under the SREB column, Types 1 and 2 were combined and Types 3 and 4 were combined. See Appendix D for more details.

Table 9 (Continued)	$/ FTE	%of Peers
FAMU	11,498	
Self-Selected Peers	11,045	104%
Peers From Old Carnegie Categories 21-22	10,877	106%
Peers From New Carnegie Categories 21-22	10,638	108%
Peers From SREB Categories 3-4	11,185	103%
U.S. Average of SREB Category 3 - HBCU	11,498	108%
Average of Peers Except Aspirational		**107%**
Average of Peers Except All Self Selected		**108%**
	$/ FTE	%of Peers
USF	13,436	
Self-Selected Aspirational Peers	17,256	78%
Self-Selected Peers	15,430	87%
Peers From Old Carnegie Categories 11-12	13,892	97%
Peers From New Carnegie Categories 15-16	12,535	107%
Peers From SREB Categories 1-2	11,363	118%
U.S. Average of SREB Category 1 - Medical	17,184	78%
Average of Peers Except Aspirational		**100%**
Average of Peers Except All Self Selected		**103%**
	$/ FTE	%of Peers
FAU	11,180	
Self-Selected Aspirational Peers	13,327	84%
Self-Selected Peers	11,447	98%
Peers From Old Carnegie Categories 13-14	9,983	112%
Peers From New Carnegie Categories 15-16	10,694	105%
Peers From SREB Categories 1-2	11,309	99%
U.S. Average of SREB Category 2 - Non Medical	11,386	98%
Average of Peers Except Aspirational		**103%**
Average of Peers Except All Self Selected		**104%**
	$/ FTE	%of Peers
UWF	10,945	
Self-Selected Aspirational Peers	9,049	121%
Self-Selected Peers	10,000	109%
Peers From Old Carnegie Categories 21-22	10,766	102%
Peers From New Carnegie Categories 21-22	8,923	123%
Peers From SREB Categories 3-4	10,353	106%
U.S. Average of SREB Category 3 -Non Medical	9,643	114%
Average of Peers Except Aspirational		**110%**
Average of Peers Except All Self Selected		**110%**
	$/ FTE	%of Peers
UCF	8,713	
Self-Selected Peers	10,737	81%
Peers From Old Carnegie Categories 13-14	10,258	85%
Peers From New Carnegie Categories 15-16	10,221	85%
Peers From SREB Categories 1-2	10,888	80%
U.S. Average of SREB Category 2 - Non Medical	11,386	77%
Average of Peers Except Aspirational		**82%**
Average of Peers Except All Self Selected		**82%**

Table 9 (Continued)	$/ FTE	%of Peers
FIU	10,207	
Self-Selected Peers	14,237	72%
Peers From Old Carnegie Categories 13-14	9,870	103%
Peers From New Carnegie Categories 15-16	10,766	95%
Peers From SREB Categories 1-2	10,972	93%
U.S. Average of SREB Category 2 – Non Medical	11,386	90%
Average of Peers Except Aspirational		**91%**
Average of Peers Except All Self Selected		**96%**
	$/ FTE	%of Peers
UNF	9,093	
Self-Selected Aspirational Peers	12,116	75%
Self-Selected Peers	10,103	90%
Peers From Old Carnegie Categories 21-22	8,309	109%
Peers From New Carnegie Categories 21-22	8,294	110%
Peers From SREB Categories 3-4	8,701	105%
U.S. Average of SREB Category 3 - Non Medical	9,643	94%
Average of Peers Except Aspirational		**101%**
Average of Peers Except All Self Selected		**104%**
	$/ FTE	%of Peers
FGCU	15,150	
Self-Selected Peers	9,805	155%
Peers From Old Carnegie Categories 21-22	10,230	148%
Peers From New Carnegie Categories 21-22	9,713	156%
Peers From SREB Category 5	9,218	164%
U.S. Average of SREB Category 5 - Non Medical	9,465	160%
Average of Peers Except Aspirational		**157%**
Average of Peers Except All Self Selected		**157%**
	$/ FTE	%of Peers
NCF		
Self-Selected Peers	10,978	

Source: CEPRI and Department of Education analyses of a database prepared by the Department of Education from sources described in Appendix D.

Table 9 shows consistent results with the first peer comparison. Compared to peer institutions, Florida funds universities that offer advanced graduate degrees at a lower rate than universities that offer only undergraduate and master's degrees.

Funding for doctoral instruction appears to have been reduced over time. The 1974-75 State University System of Florida Allocation Document shows the following funding per student (four quarter FTE) for enrollment growth:

Lower Level	$	1,232
Upper Level	$	1,679
Beginning Graduate	$	2,491
Advanced Graduate	$	7,427

This represents a 3 to 1 funding ratio between doctoral and masters level instruction

and a 6 to 1 funding ratio between doctoral and lower level undergraduate instruction. By the 1991 MGT equity study, all graduate programs were funded at the same rate and graduate classroom instruction was funded at 1.4 times the rate of lower level instruction. As mentioned above, in 1994-95, the Legislature adopted a new funding formula for enrollment growth that combined doctoral and masters programs, then based calculations on the combined actual expenditures for each university. At a later point, the formula was adjusted by the Legislature so that doctoral programs were once again reflected separately in the formula. As shown in Table 10, the current ratio of doctoral instruction to lower division undergraduate instruction varies by university but is much lower than in 1974-75:

Table 10
Ratio of Advanced Graduate to Lower Level Undergraduate Funding

UF	FSU	FAMU	USF	FAU	UWF	UCF	FIU	UNF
3.78 to 1	3.53 to 1	4.46 to 1	3.11 to 1	3.03 to 1	3.05 to 1	4.56 to 1	3.16 to 1	2.95 to 1

Source: State University System and Florida Department of Education allocation documents.

This rate is based on the differences between levels of instruction reported in the expenditure analysis. Table 11 compares the ratio of funding each level of instruction to Lower Level funding in 1974 vs. 2003, and illustrates the decline in relative funding for Advanced Graduate funding that continues to exist even though differentiated funding for advanced graduate instruction has again been incorporated into the funding formula.

Table 11
The Ratio of Lower Level Funding to Funding of Other Levels of Instruction: 1974 vs. 2003

	1974	2003
Lower Level	1.00	1.00
Upper Level	1.36	1.50
Beginning Graduate	2.02	2.28
Advanced Graduate	6.03	3.48

Source: State University System and DOE allocation documents.

Table 12 illustrates the role doctoral instruction plays in differentiating funding in most SREB states. This table presents details from the formulas reported to the SREB in a recent survey. This sample of factors used by other states confirms the practice of differentiated funding for doctoral instruction and the salary funding required to attract and retain faculty of the prominence necessary to support an extensive doctoral and sponsored research program. Note that a system which makes no “level of enrollment” differentiation for doctoral instruction may make the differentiation through a mission classification that effectively does the same thing.

Table 12

Mission Differentiation in Formulas of a Select Group of SREB States

	Mission Differentiation	Levels of Enrollment
Alabama	One salary rate for doctoral-research institutions and one for all others	LL, UL, Grad 1(Masters), Grad 2 (Doctoral)
Arkansas	Three rates for faculty salaries and operating expenses: Doc 1, Masters 1, Masters 2	LL, UL, Masters, Specialist/Professional, Doctoral
Florida	As affected by expenditures	LL, UL, Grad 1, Grad 2, based on each university's expenditures
Georgia		3, not specified
Kentucky	Kentucky State (small liberal arts) and all other	LL, UL, Masters, 1st Professional, Doctoral
Louisiana	SREB peer groups	LL, UL, Masters, Law, 1st Professional, Doctoral
Mississippi	SREB peer groups	LL, UL, Graduate
Oklahoma	Separate funding rate for each institution	LL, UL, Graduate
South Carolina	Clemson and USC funded at one rate, all others at another	Undergraduate, Graduate/First Professional, Grad 2
Tennessee	Four rates for Faculty salaries	Remedial, LL, UL, Masters, Doctoral
Texas	2 Levels	Undergrad, Professional, Masters' Doctoral
Virginia	2 levels, Doctoral, Comprehensive	Remedial, LL, UL, Masters, Doctoral, Medical
West Virginia	SREB peer groups	

Source: Caruthers, J. Kent and Marks, Joseph L. 1994. Funding Methods for Public Higher Education in the SREB States.

Emerging challenges create the necessity for Florida to develop and adopt a coherent planning and funding approach to deal with university mission. Former University of California president Clark Kerr refers to these emerging challenges facing higher education as “Shockwave II”, a period even more challenging than the post World War Two expansion of access and research funding. He describes these challenges as “Tidal Wave II” (often referred to in Florida as the “Baby Boom Echo”), the increased pace of scientific advancement and increased role of university research in supporting industry, and the opportunities presented by electronic technology (Kerr, 2001).

Discussion: Why does a funding formula based on actual expenditures result in funding for Florida’s universities that, in comparison to other states, appears to be skewed? The fundamental weakness in the expenditure analysis is the inability to reflect the complete cost of a single function that is supported by an activity that benefits more than one

activity simultaneously. This is referred to as the "joint-product" factor in faculty activity reporting. This factor is most prominent in doctoral instruction and other research-based degree programs (Leslie, 2002). The problem is best illustrated with an example:

> A doctoral student selects a major professor who is pursuing areas of research that the student is interested in. The student develops an idea in one of the research areas as a dissertation topic. The professor and student plan the student's course work and develop a research proposal to attempt to secure a grant. In the proposal, the professor pledges a percentage of his time as a matching commitment to the grant award. The student receives a research assistantship funded by the grant and has the expenses associated with the dissertation research funded by the grant.

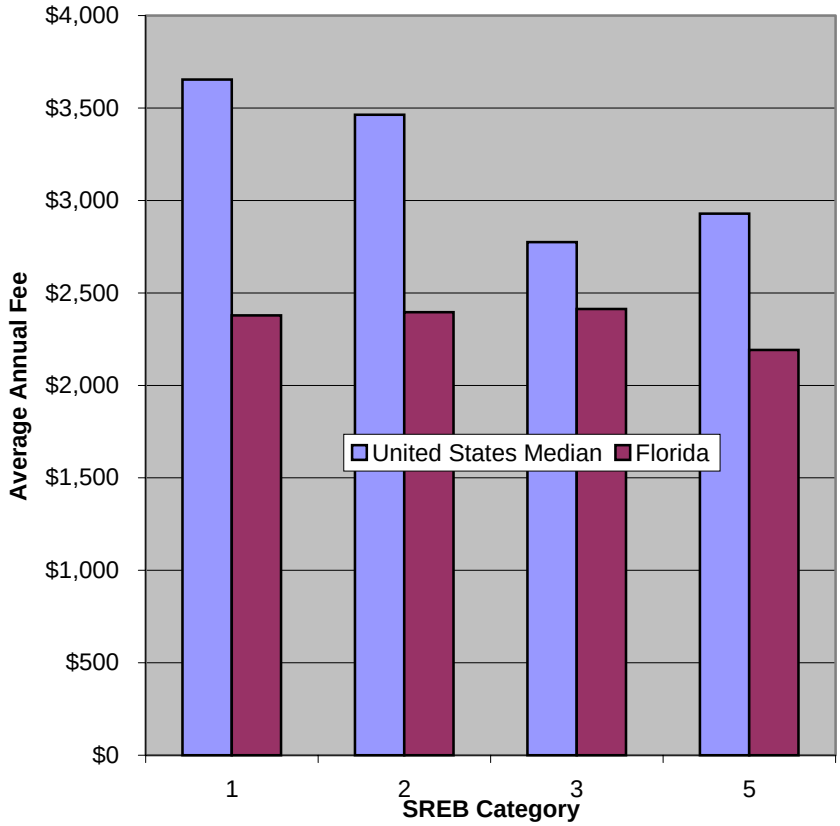
How is this reflected in the faculty activity report, expenditure analysis, and subsequent funding formula? Even though the grant is essential to the student's educational program, the faculty member reports his time as research in order to satisfy federal grant auditors that the matching commitments for the grant have been met. Based on the faculty member's activity report, a portion of the departmental account that he or she is paid from is charged to research in the expenditure analysis. Based on the expenditure analysis, these charges are, in turn, not associated with doctoral instruction. Instead, the formula funds research by adding 10% to the cost of instruction at all levels. This provides no recognition of the relationship between doctoral instruction and research.

A second source of inequity related to peers is the lack of differentiated fee policy in Florida. Figure 3 compares Florida's 2000-2001 resident undergraduate fees to the U.S. median by SREB category. Unlike the typical practice, Florida makes no distinction between university classifications in the fees that are charged to students. This contributes to the lack of differentiated funding and the inequity of the current funding of research institutions.

As reported earlier, all universities responded to the survey with support for differential funding that is based on university mission. A differential fee policy that is based on university classification would result in additional differences in funding between Florida universities, but these differences would better recognize the mission of each university and the different costs that are associated with the array of degree programs that each university currently offers.

Figure 3

Florida vs. U.S. Average Fees per Full Time Student



Source: CEPRI analysis of a database prepared by the Department of Education from sources described in Appendix D.

Recommendations:

1. The current SREB classification of each of Florida's universities should be adopted as its mission for funding purposes until the Department develops a recommendation for a different designation. Changes to university mission designations for funding purposes should be based on a strategic plan that considers the overall role of the university system in supporting Florida's social and economic goals and the cost efficiency and cost effectiveness of the changes.

2. The formula currently used by the Legislature to fund enrollment growth should be adjusted by DOE to recognize the instructional mission of research in doctoral degree programs. An adjustment for this purpose could be easily incorporated into the funding formula by varying the percentage of funding for research that is added to instructional funding based on the level of instruction.

3. Student fees should be differentiated by university classification. Increases in fees at research universities could contribute to equitable funding relative to their peers. Increases in student fees should not be offset by reductions in General Revenue.

Historical Inequity

Synopsis: The responses by several universities in explaining the causes of inequity raised two historical issues:

1. There is an historical base of funding at older institutions that is richer than the funding that has been received in recent years.

> *The lack of equity that is present today came about over a long period of time. Age of institution is a factor. We believe that the inequity has occurred primarily due to the fact much of the enrollment growth at several institutions has occurred in recent years, at a time when per FTE funding for new enrollment has been greatly reduced by the legislature. The older, more established universities had substantial growth during a period of relatively substantial funding per FTE student*

This view was contradicted by one of the older, more established universities, recalling inequities in the earliest State University System formulas...

> *During the 60s and 70s and 80s three of the schools received a portion of their enrollment based positions as graduate assistant positions at $15000 per FTE; whereas the other SUS schools, claiming no graduate education function, received no graduate assistant positions but received their non-regular faculty positions as faculty adjunct positions at $25000 per FTE. The same number of SCH generated one FTE but one school received $10000 per FTE more than another. Equity issue? Any memory of this inequity exists in the SUS? As time goes on and people retire memories of such models fade especially as the same universities have decided they now have a graduate education function now that the previous model is not used.*

Discussion: The sections on mission and faculty salaries compared funding per FTE between Florida universities and universities across the country with similar missions using a number of different methodologies. These comparisons revealed no consistent funding bias in favor of older institutions.

2. The current formula that is based on individual university expenditures locks in past inequities. One of the newer type-2 universities explained:

The funding "formula" for new enrollment currently in use is based on prior year expenditures. Institutions that received the largest allocations have the most to spend, which means they will continue to receive larger allocations.

Discussion: The current funding formula was based on a new approach: instead of the formula intending to resolve long standing disputes over funding, the formula would be driven by each university's actual expenditures. As a result, the formula would become a method of institutionalizing Legislative decisions that could be based on a more focused discussion of specific issues. For example, supplemental funding for branch campuses would later result in increased expenditures for the receiving institutions, enriching their funding for subsequent enrollment growth.

Universities have flexibility in the use of their funds that can affect their future funding. For example, institutions that allocate their new funds to instruction would have all those funds enrich future funding for enrollment growth because the instructional costs are funded at the university's average for current students. Only a portion of new money going into support services would enrich future funding, because the Legislature has usually only funded a percentage of the average support costs. While the current formula provides different levels of resources for each university, it responds to the spending pattern of the universities and to policy decisions of the Legislature to change the funding of individual institutions. Because the formula used for enrollment growth is primarily driven by past expenditures, all past funding decisions – whether at the state level or the local level - are institutionalized in the formula in some manner.

The formula for funding enrollment growth meets most of the guiding principles for funding methods, as outlined in SREB's publication, "A Primer on Funding of Public Higher Education." It:

- Is sensitive to colleges' different missions
- Is responsive to changing demands
- Provides reasonably stable funding
- Is simple to understand
- Funds colleges and universities equitably*
- Makes provisions for funding special-purpose units
- Uses valid, reliable data
- Allows administrative flexibility in spending funds

*At least, it provides funds equitably on an *annual* basis. As stated above, since the Legislature has varied its methodology for calculating support costs, the result could be, over time, an accumulated difference in per-FTE funding, which should be reviewed. This does not imply, though, that the formula itself is inequitable.

Recommendations:

In order to assure a fair and consistent review of equity funding, and to prevent university end-runs to the Legislature using methodologies developed to achieve the desired outcomes, the following recommendations are made:

4. DOE should develop and adopt a standard methodology for determining the equity of funding. The methodology should:

a. Primarily be based on each university's instruction and research mission, recognizing the relationship between advanced graduate instruction and research;

b. Provide for an equitable level of funding of each of Florida's universities relative to universities in other states that have similar missions; and

c. Make other funding adjustments only when substantiated by convincing evidence of a cost difference that cannot be addressed in any other way than by additional funds.

5. DOE should establish a fixed schedule (such as on a five-year basis) for periodic review of the accumulated differences in per-FTE funding for enrollment growth, using the adopted standard methodology each time a review is undertaken.

6. Any needed funding adjustments for equity should be included in the Department's Legislative Budget Request.

Special Appropriations

Synopsis: A major consideration in the treatment of equity is what to do about special, non-enrollment related appropriations. In one survey response, it was noted that:

> *If one reviews the data recently circulated by the DCU of the FBOE in which their staff attempts to document enrollment related and non-enrollment related positions funded by the Legislature over time, one very quickly begins to see that 15% of the positions were not enrollment related.*

In a September 5, 2001 letter to Secretary Horne, the Chancellor noted that:

> *There is no simple formula to compute dollars per FTE. In fact, the issue is rather complex since the State University System is funded incrementally. One reason is legislative issues and other issues that are not based on students….The Florida High Magnetic Field Lab at FSU,.. the Brain Institute at UF,.. for UCF,..the Nanoscience and Technology Issue, the Information Science and Technology issue or the High Tech Corridor* (includes USF) *issue are all examples of special*

legislative funding. These funds should not be considered when comparing dollars per FTE student.

In a similar vein, one university responded:

Historically, the allocation to the universities, in simple terms, has been the sum of enrollment activities and related funding, plus the sum of non-enrollment activities and related funding. There is no intent by the legislature, when special non-enrollment activities are funded for some institutions, to also provide an equivalent amount to the other institutions
.

In other words, if one university gets additional funding for a specific purpose (restricted funds), should the other universities then get additional funds to use for any purpose they please (unrestricted funds)?

The survey responses indicated consensus among the universities for excluding special appropriations such as Type I Institutes & Research Centers (institutes with several universities as members), Radio/TV, and Museums & Galleries from equity calculations so that these appropriations would not affect any other appropriations. Individual universities would also exclude other special appropriations that that university had received, such as supplements for branch campuses and centers, special research and public service programs, etc.; however, there was no consensus on which of these additional appropriations should be excluded.

Discussion: The SREB survey noted that four states calculated 100% of their budget requests through a formula, eight calculated 80% to 90% of the request through a formula, two states calculated 60% to 79% of their request through a formula, and three states requested less than 60% of funding through a formula. Florida was reported at approximately 80%. All states reported that non-formula funding was provided by the Legislature for specific research and public service activities.

The equity issue brought before the 2002 session appears to have been based on dividing all funding by enrollment including special appropriations. On the one hand, special appropriations are legislatively targeted to one or a few institutions and are therefore disequalizing if they are considered as part of funding that should be equalized through equity adjustments. On the other hand, special appropriations are often tied to initiatives by individual universities to provide special opportunities for the state that are often substantially funded by the federal government. Examples include the FSU/UF Florida High Magnetic Field Lab, the FSU supercomputer and tandem VanDegraff laboratories, and the UCF/USF I-4 corridor.

Special appropriations can be used by some universities in some years to show that they have not been treated fairly. By their nature, such appropriations are not predictable and which university is “ahead” will vary from year to year. Further, even though all Florida universities have received special appropriations, some have grown so very rapidly that their ratio of “specials” to FTE has not kept pace.

An appropriate approach would be to focus equity considerations only on enrollment-related resources. Enrollment funding would then need to be carefully monitored so that inconsistent legislative funding policies could be identified and reconciled by subsequent budget requests. If a decision is made to move away from an expenditure-driven formula, the Department would need to improve the reporting of and accounting for enrollment versus non-enrollment related resources.

Recommendation:

7. Equity discussions should be limited to the enrollment funding formula, and proposed changes to correct inconsistent legislative funding policies should result in DOE recommending an adjustment to each university's base in the Legislative Budget Request.

Economies of Scale

Synopsis: Economy of Scale is the economic principal that the size or scale of operation is likely to effect the cost of one unit of production. In higher education, this means an increase in the size of the institution may result in reductions in the cost of a full-time equivalent student. Generally, higher education research finds that scale economies are off-set by the increased cost of program diversity and increases in graduate instruction among larger universities.

Discussion: In 1972, the Carnegie Commission on Higher Education determined that for public comprehensive institutions, cost reductions began when enrollment reached between 1,000 and 1,300 full-time equivalent students, and among research and doctoral granting universities, when enrollment reached between 5,000 and 5,500 students. Paul Brinkman and Larry Leslie's (1986) meta-analysis of 60 years of research on economies of scale in higher education concluded that large economies of scale are found in expenditures for administration and operation and maintenance of plant, and that substantive size-related economies of scale are most likely to occur at the low end of the enrollment range. Total expenditures per student at institutions with 12,000 full-time equivalent students could be expected to be 22 percent lower than expenditures per student at an institution of 4,000 students. For master's-oriented institutions, economies of scale appear to be maximized at 3,000 to 4,000 students; minimum average costs are reached at 5,000 students. The relatively high levels of funding for FGCU shown on Tables 8 and 9 appear to be justified by diseconomies that result from its small size and young age.

Table 13 shows how Florida institutions rank in size compared to other universities. All Florida universities, except Florida Gulf Coast University, are larger than 5,000 students and all but Florida Gulf Coast University and the University of West Florida are among the top half in size of the 605 public universities used for inter-state comparisons in this study. The average size of Florida universities was second only to Idaho among 50 states, even with the newest university in the country, FGCU, included in Florida's data. New College, which recently became a free-standing college instead of a component of USF, has a planned enrollment of 561 FTE for 2002-03. Because it was not a

freestanding college in 1999-2000, New College was not included in the database used for interstate comparisons.

Recommendation:

8. The funding levels of FGCU and New College should be reviewed by DOE to assure that appropriate economy of scale adjustments have been provided.

Table 13

Rank of Florida Universities in FTE Enrollment Among 605 Public Universities

University	Rank
UNIVERSITY OF FLORIDA	3rd
FLORIDA STATE UNIVERSITY	17th
UNIVERSITY OF CENTRAL FLORIDA	23rd
UNIVERSITY OF SOUTH FLORIDA	25th
FLORIDA INTERNATIONAL UNIVERSITY	44th
FLORIDA ATLANTIC UNIVERSITY-BOCA RATON	118th
FLORIDA AGRICULTURAL AND MECHANICAL UNIVERSITY	159th
UNIVERSITY OF NORTH FLORIDA	192nd
THE UNIVERSITY OF WEST FLORIDA	273rd
FLORIDA GULF COAST UNIVERSITY	466th

Source: CEPRI analysis of a database prepared by the Department of Education from sources described in Appendix D.

Age of Institution (Physical Plant)

Synopsis: Several universities mentioned that it would be reasonable to review the impact of the age of the institution as it relates to physical plant operations and maintenance (PO&M) costs, indicating that facility maintenance requirements are correlated with the age, type and location of buildings.

Background: In September 1998, the "State University System of Florida Report on Deferred Maintenance Needs" was completed by a task force comprised of representatives of the Board of Regents staff, the universities, and the Executive Office of the Governor. The task force identified a critical deferred maintenance problem of $270 million. The report states that "Insufficient investment in the existing plant has resulted in this current need for immediate reinvestment." The task force identified five issues that contributed to the increasing backlog of needed building system repair and replacement:

1. The pace of growth in the SUS exceeding available PECO funding. Funding new space has taken precedence over funding previously planned operational preventive maintenance schedules for existing space.
2. The universities' need for maximum square footage. Space needs impact future Deferred Maintenance as the demand for the maximum amount of space from limited State dollars takes precedence over the need to construct a building of higher quality that can be maintained longer and more efficiently over its expected useful life.
3. The insufficient funding formula for plant operations and maintenance (PO&M). The dollars allocated among universities do not adequately fund the actual utilization of buildings.
4. The smaller universities' difficulty in accumulating the "critical mass" of larger dollars necessary to replace the more expensive infrastructure parts of a building.
5. The overall lack of a state mechanism to handle the issue of Capital Renewal. A number of major building owners in private industry recognize the cost of capital depreciation and employ a sinking fund to assure adequate resources as those assets age beyond their cost effective use. The State of Florida lacks such a mechanism, and the SUS needs to develop an approach that functions similar to a sinking fund in order to deal with this ever-increasing issue.

Funding**:** To address the concerns, the Legislature appropriated $5.9 million of General Revenue for "Maintenance Requirements" and $53 million of General Revenue for "Challenge Grants/Deferred Maintenance" in the 1999-2000 GAA. Of the $53 million, the Board of Regents allocated $20 million to the universities for deferred maintenance. Two years later, in FY 2001-02, the Legislature appropriated $20.8 million from PECO to address deferred maintenance needs.

PO&M Funding Formula: Within the funding formula adopted by the Board of Regents in December 1993, and subsequently used by the Legislature, there is a separate calculation for PO&M costs for new buildings that are scheduled to be opened in the following fiscal year. At the time the formula was developed, actual expenditures in PO&M at each university were used to develop university-specific cost factors for utilities and maintenance. Proviso language in the 1998 GAA directed the Board of Regents to evaluate the funding of utilities for current space and the methodology used to fund new space. The BOR assigned that responsibility to a task force comprised of state university system staff. The task force concluded the following:

- The funding of utilities for current space has not been indexed or inflated through the legislative process since it was adopted by the Board of Regents in December of 1993.

- An August 1998 publication by the Division of Research and Regulatory Review Florida Public Service Commission documents a 26.4% price increase in fuel and other utilities between 1988 and 1997.

- The expenditure of funds for purchased and generated utilities associated with current space has been evaluated using more than 80 university facilities. The

results clearly demonstrate an inadequate level of funding when compared to the 1993 Index.

The task force recommended making modifications to the formula used to fund new buildings. The recommendations included establishing six Energy Consumption Class Codes which reflect the estimated total energy requirement for a specific type of facility; establishing six Intensity of Use class codes that reflect the estimated maintenance and repair, custodial and grounds, and administration and other requirements for a specific type of facility; and establishing cost indexes for Operations and Maintenance and Utilities. The Board of Regents accepted these recommendations, and the Legislature has used them since that point. These cost factors have been adjusted annually; base utility factors are adjusted using data provided by the Florida Public Service Commission, and the operations and maintenance factors used are adjusted to reflect changes in the Consumer Price Index.

Discussion: Table 14 shows universities in an order which reflects their expenditures per GSF for 2000-01, from the highest to the lowest. Three sets of data (Age of Institution, GSF, and Expenditures/GSF) were collected and statistical tests were performed to determine if there was a relationship between the variables. The nonparametric test for independence (Kendall) was used for two tests: Test 1 was Age vs. Expenditures/GSF and Test 2 was GSF vs. Expenditures/GSF. The result for both tests was "fail to reject," which means that the data does not support the conclusion that there is a relationship between the variables.

"Fail to reject independence" does not prove that the variables are unrelated, but it does not support the conclusion that they *are* related. There are obvious disparities, and the reasons disparities exist would need to be explored further. For example, if an institution's expenditures per GSF are by far greater than any of the other universities, is it because the institution has made a local decision to allocate resources from other areas to correct deficiencies in the physical plant program, or is it because of inefficiencies in the management of the program that are creating higher costs, or is there some other reason that results in higher costs? Likewise, if an institution is spending less per GSF than other institutions are, is it because they are efficient or is it because they are under funded, or is it because the institution's leadership has given PO&M a low priority when allocating dollars? A more detailed review would need to be conducted.

Jointly with the Auditor General, the Office of Program Policy Analysis and Governmental Accountability (OPPAGA) conducts reviews of each school district to determine whether it is "using best practices adopted by the state's Commissioner of Education to evaluate programs, assess operations and performance, identify cost savings, and link financial planning and budgeting to district priorities." One of the areas reviewed is Facilities Maintenance; best practice indicators that are reviewed include mission statement, goals, accountability process, organizational structure and staffing, resource allocation and utilization, and information management (details of the process and the results of the reviews are found on OPPAGA's web page, http://www.oppaga.state.fl.us). If state universities were to undergo a similar review by OPPAGA, needed improvements to the process could be identified; implementation of their recommendations could result in

substantial cost savings, as has been the case in school districts. After ensuring that best practices are being employed, any cost differentials that still exist should be reflected in the formula used for funding physical plant costs.

Table 14
PO&M Expenditures per GSF

Universities, sorted by Expenditures per GSF	2000-01 E&G GSF[1]	2000-01 Actual E&G Exp. for Physical Plant[2]	2000-01 Expenditures per GSF
FAMU	1,725,294	$14,861,909	$8.6141
USF	4,096,238	$30,651,945	$7.4830
FGCU	438,426	$3,212,449	$7.3272
FSU	5,271,763	$37,083,768	$7.0344
FIU	2,884,656	$19,647,322	$6.8110
UWF	1,175,493	$7,689,512	$6.5415
UF	6,048,237	$36,196,329	$5.9846
UNF	1,422,373	$7,638,291	$5.3701
UCF	2,462,259	$13,037,748	$5.2950
FAU	2,556,433	$11,851,802	$4.6361
TOTAL	28,081,172	$181,871,075	$6.4766

[1] Department of Education
[2] 2001-02 State University System Expenditure Analysis

Recommendation:

9. To ensure that efficiencies in physical plant management are not affecting the cost per GSF, the Legislature should direct OPPAGA to conduct a Best Financial Management Practices review of the universities' physical plant programs in a manner similar to the reviews that are conducted for school districts. Such a review could ensure that the physical plant programs are managed in the most cost-effective manner possible.

Branch Campuses

Synopsis: Universities with branch campuses have expressed concern that, while branch campuses provide greater access to students, they create higher costs, mainly due to duplication of non-instructional functions, such as administration, libraries, and student support services. The universities have also indicated that instructional costs are higher because classes are usually smaller and there are faculty travel costs and stipends.

Background: In the 1987 General Appropriations Act, the Legislature directed the Postsecondary Education Planning Commission to "study the operating costs of branch

campuses and centers at community colleges and universities to identify strategies for minimizing additional costs of branch campus and center operations over the same services provided at main campuses." PEPC was directed to submit the report to the State Board of Education, the Speaker of the House of Representatives and the President of the Senate by February 1, 1988. Also in the 1987 GAA, the Board of Regents was directed to conduct further analysis for several components of the funding methodology that had been adopted in January 1987. As a part of the analysis, the Board was directed to "evaluate the costs associated with the operation of branch campuses, both instruction and research as well as administrative." The update of the funding methodology, based on these analyses, was also due on February 1, 1988.

PEPC's Study: After determining that cost data from the university branch campuses were not available, PEPC contracted with Dr. Paul Brinkman and Dr. Dennis Jones of the National Center for Higher Education Management Systems (NCHEMS) to obtain and analyze operating costs of the branch campuses and centers. Findings of the study included the following:

> *Compared to their main campuses, branch campuses and centers tend to be less expensive per student credit hour and headcount student for library services and plant operations and maintenance, more expensive for institutional support and student services, and roughly comparable for instruction. It is important to keep in mind that these comparisons are approximations and not precise measures.*
>
> *The survey revealed large differences among the branch campuses and centers on virtually all indicators of cost whether they be expenditures per student credit hour or per headcount student, ratios of support to instructional expenditures, student credit hours per FTE position, or the proportion of on-site expenditures to those allocated from the main campus.*
>
> *Looked at statistically, the branch campuses and centers as a group show evidence of diseconomies of scale, that is, their costs per student credit hour would tend to be lower if their enrollments were higher. Branch campuses and centers in stand-alone facilities and those in joint-use facilities exhibit a wide range of cost behavior. Comparing median values for the two groups, the branch campuses and centers in joint-use facilities have lower expenditures per student credit hour in the areas of library services and plant operations and maintenance. Instructional costs per weighted student credit hour[5]r are somewhat higher at the joint-use facilities.*

The following recommendations were in PEPC's report:

1. Each state university with branch campuses or centers, in collaboration with the Board of Regents, should examine alternatives to reduce the cost of coordination and the movement of human resources inherent in the multiple site structure.

[5] According to the report, "Weights by level of instruction are used in acknowledgement of the pattern in higher education that higher levels of instruction typically cost more on a unit basis."

2. In accordance with the Master Plan for Florida Postsecondary Education and the State goals for access to higher education, the following strategies should be considered to minimize operating costs at branch campuses and centers:

    a. Restrict the nature and extent of the curriculum.
    b. Target at least some support services at minimally adequate levels rather than at main campus levels.
    c. Establish minimum enrollment targets.

3. State universities should routinely compare the cost-effectiveness of duplicating main campus services, using main campus services as needed, sharing resources with another institution, or changing the level of service.

4. The Board of Regents should continue to examine and develop policy for allocating costs from the main campuses to the branch campuses and centers. As noted in the 1987 Legislative proviso, "the policy shall stipulate that all recurring program funding be converted to enrollment generated funding at the end of the third year of program development as provided for the new Lakeland Center."

BOR Study: In the 1988 report, the State University System proposed in its funding formula a specific increment of funding per branch or center, based upon its student size. The Legislature, however, did not use the formula to generate funds to be appropriated for branch campuses.[6]

Definitions: According to 6C-8.009, Florida Administrative Code, a branch campus is defined as "an instructional and administrative unit of a university that offers students upper-division and graduate programs as well as a wide range of support services." There are three types of branch campuses listed in this section of code, and all three types must be approved by the State Board of Education:

1. Type I Branch Campus is defined as a major university operation which provides a broad range of instruction, numerous full and partial degree programs, research, and a full complement of student services in university administered facilities, which are mostly university owned or shared with a public community college. For efficiency of operation and provision of an adequate range of programs theses campuses should obtain a funded enrollment level of 2,000 FTE.
2. Type II Branch Campus is a large university operation, providing a range of instructional programs, many of which lead to a degree at the branch campus, some research, and full support services in university controlled facilities. Funded enrollment is between 1,000 and 2,000 FTE.
3. Type III Branch Campus provides instruction in high demand disciplines, as well as necessary support services. Instructional and administrative functions are

[6] The funding formula adopted by the Board of Regents in December 1993 did not have a special element for branch campuses.

provided in facilities which may or may not be controlled by the university. Distance learning techniques may be used to provide a significant portion of the instructional program. Funded enrollment is between 300 and 1,000 FTE.

In addition to branch campuses, universities may establish centers, special purpose centers, instructional sites, and special purpose sites, as defined below in 6C-8.009, F.A.C.:

(d) Center is defined as an instructional unit of a university or universities that offers a limited range of instructional programs or courses. Funded enrollment at a center will be fewer than 300 FTE.

(e) Special purpose center is defined as a unit of a university that provides certain special, clearly defined programs or services, such as research, cooperative extension, or public service apart from the main campus, branch campus, or center.

(f) Establishment of new centers and special purpose centers which entail the expenditure of state funds for facilities requires an assessment of long-term needs for facilities and approval by the board of the three-year PECO project priority list. In submitting its request for authority to establish a Center, a university shall submit a report regarding the long-term requirements for programs and facilities relating to the mission statement and course offerings.

(g) Instructional site is defined as an instructional unit of a university that offers a very limited range of instructional programs or courses, generally of short duration, in facilities not owned by the institution. Universities shall retain the ability to establish instructional sites to meet demonstrated needs without the necessity for approval of the Board.

(h) Special purpose site is defined as a unit of a state university that provides services of an educational nature that are other than instruction, research or administration. Universities shall retain the ability to establish special purpose sites to meet demonstrated needs without the necessity for approval of the Board.

Appendix G reflects the classification of the branches and centers that are found in "State Universities Branches and Centers Operating Budgets 2002-2003," the document approved by the Florida Board of Education (FBOE) in October 2002. The table also reflects the actual 2001-02 FTEs found in the Student Data Course File and the 2001-02 expenditures found in the operating budgets approved by the FBOE.

Funding: The Legislature has periodically provided additional funds for branch campuses, sometimes as earmarks for specific campuses and sometimes as increases for all universities with branch campuses. Most earmarks have been to increase the delivery of academic programs on specific campuses. From 1994-95 through 1997-98, the Legislature appropriated an increase of $30.8 million to universities for Equity; of this amount, $9.86 million was allocated for branches and centers. The total amount allocated varied by university:

FSU	580,803
USF	3,940,032
FAU	419,469

UWF	573,627
UCF	1,447,989
FIU	2,890,495
Total	$ 9,852,415

Operating Budgets: Beginning in FY 2000-01, the Legislature began requiring all universities to prepare and administer a separate operating budget for each branch campus and center. The budget is to include actual prior year expenditures as well as all funds available for the current year, including concession funds, local fees, and research overhead. The budgets have to be submitted to the State Board of Education for approval.

Discussion: Accurate budget comparisons cannot be made concerning costs related to branches and centers due to the lack of detail and the lack of consistency in information reported by the universities for branches and centers. For example, while proviso in the GAA requires separate budgets for each branch campus and center, FAU is still operating under a previous legislative requirement for a separate budget for Broward County. Its branches and centers are combined into one operating budget for the county. While their administrative functions and data systems are configured for the development and implementation of such a budget, the result is that without the same level of detail as is provided by other universities, accurate budget comparisons can not be made with other branches and centers in the university system.

There is also a concern that FTE for branches and centers may not be reported in a consistent manner among the universities. Universities provide FTE data to DCU using the Student Data Course file. When asked why FTE was not reflected in the Student Data Course file for Pasco-Hernando, USF authorities explained that a code did not exist to separately capture students enrolled at the Pasco-Hernando site. Instead, FTE were reported as either a part of the Tampa FTE or as a part of the St. Pete FTE, depending on where the faculty were located who were actually traveling to Pasco-Hernando to teach the course. USF reports a budget for Pasco-Hernando, but these funds are actually "double-counted"; that is, there is in reality not a separate budget for this site, but the funds reported are really a subset of the operating funds already reported from the other campuses that are used to support instruction at Pasco-Hernando.

While the operating budgets were designed to reflect the prior year's expenditures for each branch and center, the Instructional and Research (I & R) portion of the expenditures is not reflected by level (Lower Level, Upper Level, Graduate I, Graduate II) as are the expenditures for Educational and General as a whole. Without that level of detail for the branches and centers, any cost comparisons would be misleading.

There is also a question about whether the branch campus operating budgets capture all of the additional costs associated with operating a branch campus or center. Are some universities capturing expenditures by the main campus in support of the branch campus, while other universities are not?

In order to make valid comparisons of costs among the branch campuses, it is necessary to have data that are collected and reported in a consistent and useful manner by all

universities. Improvements need to be made to the current process before such comparisons can be made.

Recommendations:

10. Working in conjunction with the state universities, the Division of Colleges and Universities (DCU) should ensure that branch campus FTE and operating budget data are defined and reported in a consistent manner by all universities, taking into consideration the following points:

a. There should be a direct correlation between FTEs submitted and operating budgets submitted, i.e., if FTEs are reported through the Student Data Course file for a center, then an operating budget should be reported for that center.

b. The operating budget for a branch or center should be distinct for that branch or center; it should not be combined with the budget of another branch or center for reporting purposes.

c. Actual Expenditures and Actual FTEs should be reported in the branches and centers operating budgets for each level of enrollment (Lower Level, Upper Level, Graduate I and Graduate II).

d. DCU should review the definitions of educational sites and the processes used for establishment of these sites in 6C-8.009, F.A.C. DCU should consider requiring FTE and budget data only for those branches and centers approved by the Board of Education.

11. As a part of conducting a review of the equity of funding of branch campuses, DOE should examine alternatives to reduce the cost of coordination and the movement of human resources inherent in the multiple site structure, as recommended by PEPC in 1988, to assure optimum efficiency in the delivery of services.

Part II

The discussion of additional issues for study is broken into two parts. Part II-A reflects the route the Council believes is the appropriate policy step for the State of Florida. Part II-B reflects issues that may be examined if the status-quo is largely maintained.

Part II-A
Discussion of Council Recommendations for Further Study

The pursuit of equitable funding for Florida universities has been an ongoing and expensive quest for a long time. Perhaps one of the problems is that it is a quest like Don Quixote's that will never be found, because equity is always in the eye of the beholder. Rather than continue to fund universities based on traditional approaches, which continue to generate controversy, the Council believes it is appropriate for the state of Florida to consider new approaches which link funding to the achievement of state goals. An intensive study should be done of the method of funding higher education with the view towards a complete re-examination of concepts underlying it. This should include the possibility of abrogation of continuation and FTE-based funding and the ramifications of replacement with a more contractually based system. If universities are provided funding from the state based on identified state policy objectives, and authority is devolved to the extent practical to the boards of trustees over budget, tuition, financial aid and other policies, then policymakers could focus on whether the results that are needed are being achieved.

Possible approaches that could be explored include expanded local administrative and fiscal flexibility and authority, combined with better accountability for results and financial incentives to encourage desired behavior by universities and students. Behaviors that could be considered for reward include increased production of graduates in high-demand fields, formation of business-education partnerships, cooperative relationships with other sectors of education, and other activities that enhance the competitiveness of Florida's economy and provide opportunities for students.

Part II-B

Discussion of Issues for Further Study
If the Status-Quo is Maintained

Faculty Salaries

Synopsis: Survey responses related to the inclusion of faculty salaries in the review of equity funding generated diverse responses that show considerable ambivalence and no consensus:

- *Only a complex model based on the university's mission and national supply and demand data of the marketplace of the university "shops in" can even approach an adequate model.*

- *In the past, the SUS has used a discipline-based faculty salary model to provide "salary equity" within the SUS. The model was biased in that, if a particularly large university decided to significantly enhance the faculty salaries in Business, based on its strategic plan, its salary average would be increased considerably more for Business than at the other SUS schools, who may not have chosen to enhance their faculty in Business. The universities receiving dollars to increase their Business faculty could then use the enhanced dollars they received for being under the Business average to increase their faculty priorities in their discipline priorities; and thus, each university would continue to have a salary deficit in business and thus continue to receive enhancement dollars. There were NO factors to represent mission and age of the institution. It became, in opinion of this university, a pure transfer function of faculty salary dollars from the older research institutions to the newer comprehensive and regional universities.*

- *Institutions should not be penalized for the salary differences created by the history of state funding at different levels.*

- *Faculty salaries are closely linked to disciplines, and it is important to include those differences in determining equity-based funding. However, it is also important to isolate the effects of performance-based increases in faculty salaries so that the salary cost is representative of the market.*

Discussion: In a letter from the Chancellor to Secretary Horne (September 5, 2001), the Chancellor noted that:

> *Another factor that distorts the per FTE comparison is the differences in salary, particularly at the faculty level. For the most part, the University of Florida competes for a different type of faculty member than Florida Gulf Coast University or Florida International University, tied… to the different types of academic program offerings.*

Table 12, discussed above, shows the practice of a sample of states in differentiating funding for salaries based on mission. Table 15 shows that variation exists in the degree to which Florida universities approach or exceed the national average of their peers based on the SREB peer criteria. However, a university could choose to use its funds to have more faculty with lower pay rather than fewer faculty with higher pay, so average salaries alone do not conclusively demonstrate a problem with equity funding.

Table 15

Average Salaries of Full-Time Instructional Faculty by Type of Public Four-Year Colleges and Universities						
	Average for All Ranks of Faculty, 2000-2001					
	SREB Categories of Four-Year Colleges and Universities					
	1	2	3	4	5	6
United States	$69,243	$60,135	$56,054	$53,689	$50,113	$48,696
Florida	62,464	55,778	52,160	NA	51,638	NA
Florida Percent of U.S.	90%	93%	93%	NA	103%	NA

Source: CEPRI analysis of a database prepared by the Department of Education from sources described in Appendix D.

Faculty salaries at Florida's Type I research universities are 10% less than their peers nationally. For Types 2 and 3, faculty salaries are 7% less than their peers. This may present a challenge in the recruitment of quality faculty, since the market for these faculty is highly competitive.

Recommendation

12. If concerned universities show that recruitment and retention of faculty is a problem, then DOE should research this issue for future budget requests related to quality improvement, not equity.

Discipline Cost Differences

Synopsis: All but two of the universities indicated support for the use of discipline costs as a variable in considering funding equity.

Proponents noted in the survey that:

> *Disciplines reflect the unique character of each university. Some are more expensive to support than others. The mix of disciplines and degree levels… along with the enrollment levels in those programs, are the key factors that must be included in an equity-based model.*

And…

> *If a particular degree plan is part of the approved activities of an institution, than each discipline needs funding predicated on what it takes to recruit and retain the proper faculty, develop facilities, and basic operational needs. In particular business and health professions are more costly; not only for salaries but also equipment, material, clinics, accreditation, etc..*

However, two of the supporters indicated marginal support:

> *Yes, if formulas must change to be that precise… Years ago the formulas included a matrix of some 24 disciplines, 4 levels of students and an implied*

average class size for credit hour factors per instructional position, etc. Later the formula was changed to 4 discipline groups in favor of less detail. Most recently, since 1994-1995, the formula is really all disciplines combined. The future of this depends on how much detail the universities, FBOE and the Legislature would want to incorporate in new formulas.

And...

Under the best of circumstances the state would differentially fund by discipline. Other states have tried and failed to do this. The complexity of such a system and the availability of resources may make such discipline formulas impractical but mission could be used as a factor.

One opponent commented:

There is no historical basis that universities can accurately predict enrollment growth by discipline. It is tough enough to predict enrollment by level ... and over enrollment within the SUS in the past few years. Since at the undergraduate level students are not admitted by discipline, it is impossible to accurately predict enrollment growth by discipline and thus, a allocation model will create a monitoring issue to determine the meeting of planned enrollment by the university.

Background: Discipline cost differences are clearly demonstrated in the annual expenditure analysis. For example, for 2000-01, system-wide average expenditures at the upper level for Physical Sciences were $291.30 per credit hour, four times the amount spent per credit hour on Parks and Recreation programs. As noted by the responses from the universities, the university system has used discipline differences in a variety of ways over the years. On the other hand, the formula used by the Legislature from 1956 through the early 1990's to appropriate funding for the State University System did not include discipline differences.

Discussion: Until now, all programs were approved at the state level. With the implementation of the K-20 governance structure, undergraduate and Master's level programs are approved by the local boards of trustees. The discipline mix at individual universities has become a local decision, not a state decision. Outside of doctoral and first professional programs (*s. 1001.02(2)(w)*, F.S.) the decision to offer a degree in a particular discipline is the responsibility of local university boards of trustees.

Individual universities have at times had specific disciplines funded through special appropriations. For example, the entire system benefited from an initiative to improve engineering during the 1980's.

While there is inarguably a difference in cost among disciplines, the fact that the mix of disciplines offered is primarily a local decision removes this issue from realm of state policy consideration. Universities have the option of reducing non-instructional expenditures or eliminating low-priority programs in order to implement a local decision to provide openings for more students in high cost disciplines. If there is a state need

to expand or begin a particular discipline (such as engineering in the 1980s), it would be appropriate for DOE to pursue special funding from the Legislature.

Recommendation:

13. Since local boards of trustees now decide which undergraduate and Master's level programs to offer, discipline mix should not be given special consideration in State equity determinations.

Fee Waivers

Synopsis: Six of the universities indicated on the survey that fee waivers should be included in a review of equity funding. Comments included:

> *Some institutions incur more waivers than other due to their geographic location and certain economic factors.*
>
> *Fee waivers allow for recruiting potential graduate assistants as well as supporting diversity at a given institution. Their use is critical in developing quality graduate programs, and as such need to be funded in a manner that supports the mission of the institution.*
>
> *The .25 working student FTE to waivers formula has been discontinued and funding has not been made up by other means. Universities must compete for graduate students. Matriculation and Out-of-State Waivers is a significant portion of recruitment. Without this program, universities are less competitive or must fund waivers on their own. This is critical for PhD programs, for these programs take at least five years to complete versus two years for Master's programs.*

Five of the institutions indicated that fee waivers should not be included in an equity review. Comments included:

> *Now that the Boards of Trustees have the authority to set fee waivers, budgetary planning and decision making related to fee waivers should occur at the local level.*
>
> *Fee waivers represent a resource that varies among institutions and should be considered part of any funding calculation.*

Background: In the 1988 GAA, the Florida Legislature directed PEPC and the BOR to review state policy and practices with regard to graduate fee waivers and stipends. The report found that "the level of compensation and source of funding for assistantships for graduate students varies widely by discipline and university. Differences also exist in the number of enrollment, the number of graduate students receiving stipends, and the typical FTE appointment. The lack of consistency among disciplines within the institutions surveyed in this study as well as the data reported in ongoing national

surveys, suggests that a standard stipend for all disciplines within any institution or system of institutions is neither appropriate nor desirable. The determination of a competitive level of stipend for graduate assistants can best be made at the individual discipline level within each individual institution."

The BOR adopted a formula to determine the need for fee waivers and fellowships. The Legislature has not used this formula since the first year it was adopted, because of concerns with the methodology used in the formula.

The last year in which the General Appropriations Act specified the amount provided for fee waivers was in 1999-2000. The amount in proviso that year was $44,727,570, which included fee waivers for the UF and USF medical schools. Universities could, and do, supplement this amount with funds from other sources, such as Contracts and Grants.

Proviso in the 2002-03 GAA gives university board of trustees flexibility in waiving fees:

> *Each university board of trustees is authorized to waive tuition and matriculation fees for purposes which support and enhance the mission of the university. All fee waivers must be based on policies which are adopted by university boards of trustees. Each university shall report the purpose, number and value of all fee waivers granted annually in a format which shall be prescribed and reviewed by the Florida Board of Education.*

Discussion: For 2000-01, the universities waived a total of $89.7 million in fees for 62,362 waivers in Educational and General programs. Details are provided in Appendix F-1. While waivers are provided for a variety of purposes, such as athletics, honors students, state employees, etc., the largest portion of the Educational and General waivers, 52%, is for graduate assistants. Appendix F-2 compares fee waivers awarded by each institution for graduate assistants.

Since 48% of waivers are given for other purposes, to both in-state and out-of-state students, and for both graduate and undergraduate students, Appendix F-3 compares total fee waivers appropriated per total headcount with total fee waivers expended per headcount for E&G fee waivers in FY 2000-01. Appendix F-4 then shows this same comparison using FTE.

Providing fee waivers is strictly a local decision; each university decides the types of waivers that will be provided, the number of students that will receive waivers, and the funding source of the waivers. Priorities of the university affect these decisions. For example, FAMU gives the largest amount of fee waivers for Honors students of any university in the system; FAU gives the largest amount in the system for Exchange students; FSU gives the most in the system for Music students, etc. This local flexibility is appropriate and is encouraged by the Legislature through proviso allowing the boards of trustees to waive fees. While the appropriations per headcount and per FTE vary by institution, it appears that, in general, the appropriations for institutions are in line with

other state universities in their classification. The primary exception seems to be FAMU, which has received a much higher level of funding than others in its classification.

Recommendation:

14. A separate formula should continue to be used to allocate appropriations for fee waivers. Because of the flexibility universities have in awarding fee waivers, though, they should not be given special consideration in determining the equity of overall funding.

Part-time Students

Part-time student headcount was cited by two universities in the survey as a factor that should be included in an equity formula. One university countered that most of this problem could be solved by technology.

Discussion: Part-time students are a large portion of the enrollment at state universities. As shown in Appendix H, part-time enrollment for the system was 34% in 1998-99, and 32% in 2000-01. However, these percentages varied widely among the institutions. In both years, part-time students comprised at least 40% of the headcount at six of the universities. In both years, FAMU and UF had the least amount of part-time students; at those universities in 2000-01, part-time enrollment was 13% and 14%, respectively.

The concern about including part-time students in an equity formula is based on the idea that it is less efficient to (as an example) provide support services to four students taking one three-hour course each rather than one student taking four different three-hour courses. Headcount in combination with FTE has been used in the past as a component of the funding for student services and is incorporated in the base funding of each institution. As a result, funding for new enrollment is enriched at those institutions through the expenditure analysis.

Examining data on part-time students, O'Brien (1992) noted that they tend to be older than traditional age college students and that they are much less likely to receive financial aid than their full-time counterparts. This would appear to indicate greater maturity, higher motivation and less reliance on guidance and career counseling by the university. Mature students also place unique demands for scheduling availability of libraries and other resources (Mangano & Corrado, 1978), but in this regard may be little different from full-time graduate students.

There seems to be little research on the financial impact of part-time students on higher education institutions. In 1983, Paul Brinkman examined the financial impact of part-time enrollments at 779 community colleges. While hypothesizing that the marginal instructional costs of a part-time student would be about one-third that of a full-time student, he found that it apparently costs only about one-fifth to one-seventh as much. The ratios for student services were in the four-to-one and higher range, suggesting that many part-time students do not use all of the services provided. His report states,

"They have to be admitted and registered, of course, and pay their fees, but perhaps they make relatively little use of more expensive services such as counseling." Brinkman's report focused on community colleges; the extent to which his findings would apply to universities is unknown. However, in order to further assess this issue, a regression analysis was performed on 500 public universities comparing state and student fee funding to their percent of headcount enrollment that was part-time. A negative relationship was discovered between funding levels and part-time enrollment. This is consistent with Brinkman's findings.

Part-time enrollment is a large segment of enrollment at Florida's universities and should be subject to a more detailed examination than was possible within this study. For example, what are the true costs of having a large number of part-time students enrolled at universities? How many part-time students need the full array of support services that are used by full-time students? Why are there so many part-time students? Before changing the funding process to further compensate for part-time students, should the state first address such issues as insufficient need-based aid or the lack of access to local programs, which may be causes of students having to attend part-time (and work part-time)? Are there new opportunities to better utilize technology? As institutions with large part-time enrollment grow, technology should be used wherever possible to defray any additional costs that have arisen. What costs, if any, would be associated with an increased use of technology? Has the expansion of computerized and web-based registration, financial aid application, and counseling already off-set any diseconomies from large numbers of students? These are just some of the questions that should be addressed in examining this issue.

Recommendation:

15. Since part-time student enrollment has not been clearly demonstrated to constitute a significant cost difference, it should not be given special consideration in equity deliberations at this time. Part-time enrollment is a large segment of enrollment at Florida's universities, however, and should be subject to a detailed examination by DOE. Before pursuing an equity adjustment for part-time students through legislative appropriations, DOE should ensure that alternatives to increased spending have been fully explored, such as increasing the use of technology and/or financial aid in order to decrease the number of students that need to attend part-time.

Regional Cost Differentials

Several of the universities listed local cost differences among issues to be included in a formula but no supporting documentation or detailed discussion was included. The Florida Education Finance Program (FEFP) includes a district cost differential among many other (sometimes off-setting) variables, such as the sparsity supplement and the minimum guarantee), which are not addressed in university funding. The community college formula developed by the Department of Education includes a district cost differential, but has not been consistently used by the Legislature.

Universities have received funding based on local cost differences through the physical plant formula, as discussed above, and a salary supplement for career service (now University Support Personnel System, USPS) positions. Faculty are not recruited out of the local employment pool so a supplement to deal with local salary expectations has not been provided in the past. On the surface, it appears there is no need to make further adjustments for regional cost differentials, but if concerned universities show that a case can be made for such adjustments, DOE should review this issue on a system-wide basis. It is possible that empirical research could lend insight into this issue.

Recommendation:

16. No adjustments for regional cost differences appear justified at this time. However, if concerned universities can make a case for such adjustments in the future, DOE should review the issue on a system-wide basis.

Supplanting General Revenue with Out-of-State Fee Revenue.

Synopsis: In material presented to the Council in meetings, FIU raised two issues it identified as equity issues: (1) the use of out-of-state fee revenue to fund enrollment growth, indicating that non-resident fee revenue was supplanting General Revenue (GR) support for in-state students in the formula; and (2) the level of per-FTE funding provided private universities through the Florida Resident Access Grant (FRAG), indicating that less funds per FTE were being provided to some public universities than to private universities through FRAG.[7]

FIU specified that the supplanting of GR with non-resident fee revenue was more detrimental to some universities than to others:

> *The tuition revenue collected for 1 non-Florida FTE (40 SCHs) is $13,361. Since the E & G revenue allocated per lower division FTE is less than that amount…the tuition revenue collected above those figure supplants the general revenue that should have been allocated to support the in-state FTEs. At the lower division level, where 27.6% of FAMU's FTEs are generated by non-Florida students, they received virtually no general revenue for the 63 FTEs generated by their in-state students.*

Background:

Setting of fees: Pursuant to s. 1009.24 (3), F.S., within proviso in the General Appropriations Act (GAA) and law, the local boards of trustees set the amount of tuition charged to resident and non-resident students. The General Appropriations Act establishes a standard resident and non-resident tuition fee for all universities, and sometimes provides the flexibility for universities to also establish discretionary fees. The 2002-2003 General Appropriations Act, for example, provided individual university boards of trustees with the authority to increase non-resident fees up to 10%, in addition to the 10% increase mandated for the standard non-resident fees. Although

[7] The FRAG issue was reviewed by the Council and determined to be outside the focus of this report. An explanation is provided in Appendix I.

fees are established and charged under the authority of the Legislature, revenues from the fees are no longer appropriated at the state level. They are, however, taken into consideration in the enrollment funding formula.

Table 16 compares the 2001-2002 tuition and required fees of Florida vs. the U.S. average. While the tuition and required fees Florida charges students are lower than the U.S. average in all areas, they are closer to the average for non-resident students than for resident students:

Table 16
2001-02 Tuition and Required Fees
Public Universities

Level of Instruction	% of U.S. Average Resident Fees	% of U.S. Average Non-Resident Fees
Undergraduate	60.1%	86.1%
Graduate	70.4%	96.1%

Source: Florida Department of Education

Prior to January 7, 2003, s. 240.209, F.S., required nonresident matriculation and tuition fees to "...be sufficient to defray the full cost of undergraduate education. Graduate, medical, veterinary, and dental fees charged to nonresidents may be increased by the board in the same percentage as the increase in fees for nonresident undergraduates." With the passage of the new school code during the 2002 legislative session, that requirement no longer exists.[8]

Enrollment of out-of-state students: There are currently no statutory caps on the number of out-of-state students a university may admit. There are two other related restrictions, though: (1) There is a 10% cap placed on system wide non-resident enrollment in 6C-7.006, F.A.C. The enrollment at any university may exceed 10%, as long as the total for the system does not exceed 10%; and (2) The GAA specifies that universities may not receive General Revenue funding for any out-of-state student admitted under the profile admissions policy. The profile admissions policy allows universities to accept students who do not meet all of the criteria for university admissions.

The enrollment of out-of-state students varies widely among state universities, as the data from Fall 2000 shows in Table 17. This variance explains why some institutions may be more concerned about this issue than others.

[8] Note, however, that in the community college system, s.1009.23 (5), F.S., requires that, *"Except as otherwise provided in law, the sum of nonresident student tuition and out-of-state fees must be sufficient to defray the full cost of each program."*

Table 17
Non-Florida Residents

UF	12.27%
FSU	14.68%
FAMU	25.10%
USF	6.63%
FAU	9.52%
UWF	8.06%
UCF	6.32%
FIU	11.68%
UNF	3.59%
FGCU	4.57%
SUMMARY	10.53%

Source: State University System Fact Book 2000-2001

Funding Formula: The enrollment funding process begins with a total amount of funding per student by level and university. The anticipated fee revenue is subtracted from this total to determine the amount to be funded from General Revenue. The formula does not distinguish between in-state and out-of-state students. In other words, by level, the same amount of funding is provided for each student at a university, regardless of residency.

Discussion: Since out-of-state students pay higher fees than in-state students, the end result is that fees collected from out-of-state students are used to help defray the costs of educating in-state students. Tables 18 and 19 compare the funding provided by the Legislature in the 2002-03 GAA with the amount of fees collected from in-state and out-of-state students:

Table 18
Funding for Enrollment Growth in FY 2002-03
Non-resident Students

	LOWER	UPPER	GRAD I	GRAD II
System Average Funding by the Legislature	$ 5,049	$ 7,797	$12,537	$18,549
Fee Revenue From One Non-Resident Student	$13,356	$13,356	$18,150	$18,150
Net "Profit"	$ 8,307	$ 5,559	$ 5,613	$ (399)

Source: CEPRI analysis of information provided in 2002-03 General Appropriations Act

Table 19

Funding for Enrollment Growth in FY 2002-03
Resident Students

	LOWER	UPPER	GRAD I	GRAD II
System Average Funding by the Legislature	$ 5,049	$ 7,797	$12,537	$18,549
Fee Revenue From One Resident Student	$ 2,338	$ 2,338	$ 4,500	$ 4,500
Net "Loss"	($2,711)	($5,459)	($8,037)	($14,049)

Source: CEPRI analysis of information provided in 2002-03 General Appropriations Act

Any "loss" must be funded from one of two sources: student fees or General Revenue. For all agencies, the policy of the Legislature has been to maximize the use of trust funds (in this case, student fees) before appropriating General Revenue. Fees collected from both out-of-state and in-state students are used first; the difference is then funded from General Revenue. Table 20 reflects the net impact of this policy and the amounts that must be funded from General Revenue, after taking fees into consideration.

Table 20
Summary of Funding for Enrollment Growth in FY 2002-03

	LOWER	UPPER	GRAD I	GRAD II
Net "Profit" from Non-Resident Student	8,307	5,559	5,613	(399)
Net "Loss" from Resident Student	(2,711)	(5,459)	(8,037)	(14,049)
Difference to be Funded from General Revenue	5,596	100	(2,424)	(14,448)

Source: CEPRI analysis of information provided in 2002-03 General Appropriations Act

As shown in the previous table, two issues emerge in the formula that funds enrollment growth: (1) out-of-state fees are used to off-set the costs of in-state students in general, and (2) out-of state fees from undergraduate students are used to support graduate students.

The question then becomes, "Is the formula inequitable because of these issues?" This is really a policy question and the answer depends on one's perspective. On the one hand, if the perspective is one of subsidizing or equalizing the amount provided, so that each university receives a certain *total* amount per FTE, then the answer is "No, the formula is not inequitable because of this issue." On the other hand, if the intent is to provide an equal amount of *state* funding per FTE, giving each university the discretion to generate and expend additional fee revenue, then the answer to the question is "Yes, the formula is inequitable because of this issue." It does not provide an equal amount of state funding per FTE.

Both sides of the issue can be argued. The formula uses the same methodology for each university. However, since each university chooses to admit varying levels of out-of-state students, some may receive less General Revenue support than others because they receive more revenue from out-of-state tuition. This is the same approach used for both public schools and community colleges: the total base is determined, then fees (and other local funds) are subtracted, leaving the difference to be funded from General

Revenue. Equity, then, is judged in terms of total resources provided per student, not General Revenue provided per student. If all universities were to receive the same level of General Revenue per student, then universities would be encouraged to enroll a larger percentage of undergraduate out-of-state students to generate a higher level of "profit," since they would be receiving – and keeping – the higher level of fees paid by these students, in addition to receiving a higher level of General Revenue for in-state students. Expanding the enrollment of undergraduate out-of-state students could limit resident students' ability to enroll in limited access programs. As mentioned above, the Florida Administrative Code caps out-of-state enrollment at 10%, at the system level. Clearly, the priority is placed on providing access to in-state students.

The same rationale used above could be used to defend a different perspective: if all universities were to receive the same level of GR per student, then universities would be encouraged to enroll a larger percentage of undergraduate out-of-state students. This could be a desirable effect, if the goal was to encourage universities to improve their programs to entice out-of-state students as a way to promote economic development and provide the enrichment of having a more diverse student body.

The above discussion focuses only on the formula used for enrollment growth. What is the impact of out-of-state students on base funding? When tuition increases are implemented, more tuition is collected from out-of-state students than from in-state residents. For example, a 5% increase in matriculation fees for undergraduate resident students would generate $116.92 per full-time student. A 5% increase in matriculation and tuition fees for an undergraduate out-of-state student would generate $667.80 per full-time student. Institutions with larger proportions of out-of-state undergraduate students would profit more from tuition increases than institutions with small proportions of such out-of-state students. This benefit would exist only if the out-of-state fees were actually collected. Universities would argue that fees are often not collected; in fact, funds from other sources, such as Contracts and Grants and university Foundations, are often used to provide scholarships and fee waivers to out-of-state students to entice them to attend state universities. Therefore, the initial shortfall created by a smaller GR appropriation is not, in reality, offset by tuition increases in later years.

Recommendation:

17. This issue should be reviewed after state policymakers determine the desired outcome relating to issues such as enrolling out-of-state students and setting and expending their fees, i.e., do they want to encourage revenue generating activities which subsidize university operations, subject to appropriate controls, or do they want to equalize total state funding?

SUMMARY AND CONCLUSION

Funding for each state university in Florida was compared with that of its peers throughout the nation. If equity of funding existed, the expectation would be that each Florida institution would have a similar percentage of funding compared to its peers. Three institutions in Florida received more than the average of their peers, while seven received less. Three of the six, FSU, USF, and UCF, received funding more than 10% below their peers. This suggested that equity did not exist in overall funding. Other comparisons were made to determine if this was the case, and if so, what were the causes.

In economics, equity is defined as a condition in which no agent envies any other agent's allocation (Varian, 1975). Differentiated funding is common in higher education because of differences among institutions in mission. While nuances such as regional access, metropolitan location, and discipline mix may be argued as components of a differential mission, the factors recognized in national classification systems have to do with the diversity and number of degrees granted in advanced graduate programs and the related extent of sponsored research. These are the activities that are the gateways to professional advancement for faculty (Berman and Skeff, 1988) and the increase in status for universities. Because of these motivations, the lack of consensus on a tiered system of missions for Florida universities sets the stage for the perennial complaint of inequity based on analyses that show that all Florida universities are not treated equally. While universities in Florida seem to be in agreement that differentiated funding is acceptable, there does not appear to be agreement on a system of differentiation that eliminates envy. So the concern has arisen – again – that resources may not be allocated in an equitable manner. Despite almost fifty million dollars in funding for equity adjustments in the past decade, there continues to be complaints that the system is inequitable. On the other hand, the lack of explicit differentiated mission, the repeated efforts to fund equity, and the success of most of Florida's universities in moving into more prestigious classifications based on national criteria are all evidence that the state has made extraordinary efforts to be fair.

Contributing to the problem is a history of growth of the State University System of Florida over the past 30 years that may be without precedent. In particular, UCF and FIU have grown extraordinarily quickly into doctoral/research institutions without the presence of a funding formula that supports this mission. Most research funding by the Florida Legislature is targeted at specific areas of research rather than being provided as part of a funding formula. The targeted research funding at the fastest growing universities has not had time to be cultivated in proportion to their current size because of their rapid development. On the other hand, these and other, but not all, universities have benefited from equity funding which provided unrestricted funds that could be used to address any under funded areas in the university, including research and doctoral instruction.