The State Has Several Options Available When Considering the Funding of Higher Education

at a glance

This report analyzes four alternatives described below for funding state higher education that have been recently discussed by Florida policymakers or have been implemented in other states.

- Tuition flexibility among institutions - The Legislature could grant universities flexibility to increase their tuition to provide funding to help cover enrollment growth and increased operational costs or to reduce tuition to attract more students.
- Tuition variability within institutions – The Legislature or higher education institutions could charge variable tuition rates to better reflect the costs of different academic programs. Tuition could also be varied based on student academic choices, personal characteristics, or behavior.
- Block tuition – The Legislature or higher education institutions could charge full-time students tuition based on a block rate for 12 to 18 credits rather than by credit hour. This could provide a financial incentive for students to take more credits each semester. However, the effect of block tuition on student behavior is uncertain.
- Higher education vouchers – The Legislature could provide vouchers to allocate state funding directly to students rather than to institutions. Some proponents believe voucher programs would improve the efficiency of the higher education system, while some opponents believe voucher programs could create perverse incentives for institutions to attract students by making classes less challenging. However, since no state has implemented a voucher program, vouchers’ effects are uncertain.

Scope

As requested by the Legislature, this report presents information on four alternatives for modifying the state’s current system of funding higher education:

- tuition flexibility among institutions;
- tuition variability with institutions;
- block tuition, and
- higher education vouchers.

A companion OPPAGA report presents options for creating financial incentives to encourage students to earn baccalaureate degrees with fewer excess hours and thereby decrease state costs.

Background

The Legislature funds Florida public postsecondary education operating costs through two primary sources: appropriations from general revenue and lottery funds, and tuition and fees. ¹

In Fiscal Year 2003-04, the Legislature appropriated approximately $2.5 billion in general revenue and lottery funds to support the state’s 28 public community colleges and

¹ The Legislature also appropriates Public Education Capital Outlay trust funds for capital improvement projects.
Information Brief

11 universities. In 2002-03, appropriated funds covered 51% of higher education costs for lower division undergraduate university students, 68% of costs for upper division undergraduates and 66% of costs for community college students. The remaining costs are covered by tuition and general fees students pay to attend higher education institutions. Florida currently subsidizes the cost per credit hour for every student equally, regardless of financial need or their program of study.

The Florida Board of Education is the chief implementing and coordinating body of public education in Florida. In addition, Florida public universities are overseen by boards of trustees at each institution, with statewide oversight being provided by the Florida Board of Governors. Florida community colleges are overseen by individual boards of trustees. The Legislature has retained primary authority for establishing tuition rates at public universities and community colleges.

Findings

The state can make changes to the way it funds higher education in a number of ways including giving institutions flexibility to set their own tuition and general fees, giving the Florida Board of Governors authority over tuition and fees, varying the fees charged for different programs or students within an institution, charging student tuition for a block of courses rather than by credit hour, and giving students education vouchers instead directly providing education subsidies to community colleges and universities. Many of these alternatives have been recently discussed by Florida policymakers or have been implemented in other states. This report describes these alternatives and the advantages and disadvantages associated with them.

Option 1 - Providing local flexibility in setting tuition

In the General Appropriations Act, the Legislature annually establishes base tuition rates for all students attending Florida universities and community colleges. In addition, community college boards of trustees have the flexibility to set their own tuition rates as much 10% below or 15% above the combined total of the fee schedule adopted by the State Board of Education and the technology fee adopted by a board of trustees. Community college boards of trustees have used this flexibility to increase tuition rates by varying amounts. In Fiscal Year 2002-03, community college tuition ranged from a high of $46.30 per credit hour to a low of $40.56 per credit hour.

In contrast, university boards of trustees do not have the statutory authority to alter resident undergraduate tuition rates established by the Legislature, although they may establish rates for local fees. Nationally, according to a 2003 study by the State Higher Education Executive Officers, tuition-setting authority rests primarily in the legislature in just four states—Florida, Louisiana, Oklahoma, and Texas. Tuition in other states is set by local governing boards (similar to Florida university boards of trustees), state coordinating agencies or governing boards (similar to the Florida Board of Governors), or university system boards (for which Florida has no counterpart). However, the legislatures of several of these states, including Michigan, Maryland, Tennessee, and West Virginia, have recently considered and/or passed legislation to place caps on tuition increases.

The Florida Legislature authorized university boards of trustees to increase tuition for only non-resident undergraduate and graduate resident and non-resident students an additional 6.5% above 2003-04 base rates and an additional 2.5% above 2004-05 base rates. The Department of Education estimates that universities in 2003-04

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2 This total does not include funding for the Institute for Food and Agricultural Sciences, the University of South Florida Medical Center, the University of Florida Health Center, and the Florida State University Medical School.
raised approximately $15.8 million through these discretionary increases.

Providing Florida universities with flexibility to set tuition rates, similar to that currently provided to state community colleges, would produce several potential benefits. With increased flexibility, Florida universities could adjust their tuition rates to meet their unique needs. Some universities could increase tuition to cover enrollment growth and higher operational costs or to raise additional revenues for educational enhancement, such as attracting high-quality faculty or improving technology or course offerings. Other universities could reduce tuition to be more competitive with peer institutions. If Florida universities followed national tuition trends, the state’s research/doctoral universities and liberal arts/baccalaureate colleges most likely would charge higher tuition rates than Florida’s comprehensive/masters universities. 

The Legislature could give tuition-setting ability to each university’s board of trustees, which would maximize their flexibility, or the Legislature could give authority to the Florida Board of Governors for statewide oversight. Depending on the degree of tuition-setting authority delegated and the parameters established for exercising that authority, the Legislature could authorize tuition flexibility in several ways. These include:

- delegating tuition-setting authority completely to university boards of trustees or the statewide board of governors,
- allowing university boards of trustees or the Florida Board of Governors to set resident undergraduate tuition rates within certain prescribed limits (similar to community colleges), and
- authorizing universities boards of trustees or the Florida Board of Governors to impose additional tuition increases only for out-of-state and graduate students.

**Tuition flexibility would affect both university revenues and student costs.** If, in response to receiving flexibility to set tuition for their resident undergraduate students, all Florida universities were to raise tuition for these students by 15% above 2003-04 base rates, they could generate an additional $30 million. A 15% increase above the base rate would increase a full-time resident student’s cost by $228 per year (see Exhibit 1). In contrast, if universities dropped resident undergraduate tuition rates by 10%, typical student costs would be reduced by $152 a year.

**Increasing Tuition Flexibility Has Advantages and Disadvantages.** The primary advantage of increased tuition flexibility is that universities could become less reliant on state revenues. However, the Legislature would exercise less control over tuition rates, which could lead to concerns about college affordability.

If higher education institutions used flexibility to substantially increase their undergraduate tuition, the state’s cost of providing Bright Future Scholarships would increase unless changes are made to the current program. Since lottery proceeds are limited, this could require the Legislature to consider additional funding sources for the program, change eligibility requirements, or reduce scholarship benefits. Undergraduate resident students who receive Bright Futures Scholarships currently receive an annual award based on 75% or 100% of an undergraduate student’s tuition and fees. To manage these costs, the Legislature could change the scholarship benefits by setting the award amount of a Bright Futures Scholarship at a specified dollar value instead of a percentage of actual tuition.

### Exhibit 1
**Allowing Universities to Vary Their Tuition Between 10% Below and 15% Above 2003-04 Rates Could Result in a Difference of About $380 per Year**

<table>
<thead>
<tr>
<th></th>
<th>Current Rate</th>
<th>10% Below</th>
<th>15% Above</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rate per hour (2003-04)</td>
<td>$63.41</td>
<td>$57.07</td>
<td>$72.92</td>
</tr>
<tr>
<td>Annual Tuition per student</td>
<td>1,521.84</td>
<td>1,389.66</td>
<td>1,750.12</td>
</tr>
<tr>
<td>Amount of Increase</td>
<td>(152.18)</td>
<td>228.28</td>
<td></td>
</tr>
</tbody>
</table>

Note: Based on FY 2003-04 tuition rates for average student load of 12 credits per during fall and spring semesters (does not include any hours during summer terms). Source: OPPAGA analysis.

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8 For information on how Florida university tuition and fees compare to peer institutions see Information Brief: Florida Universities’ Tuition and Fees Slightly Below Peers, But All Costs Consume a Higher Percentage of Family Median Income, OPPAGA Report No. 04-12, February 2004.

9 For more discussion on how different options for controlling the costs of Bright Futures, refer to Program Review: Bright Futures Contributes to Improved College Preparation, Affordability, and Enrollment, OPPAGA Report No. 03-17, February 2003; and Program Review: Most Bright Futures Scholars Perform Well and Remain Enrolled in College OPPAGA Report No. 04-23, March 2004.
Increases in tuition rates also may increase the need for need-based financial aid. To maintain current levels of college accessibility, tuition increases may need to be accompanied by increases in need-based financial aid. Approximately 31% of undergraduate university students currently receive state and federal need-based aid. If tuition increased by 15%, and the Legislature wished to maintain the current level of accessibility, it would have to expend an additional $16 million for need-based financial aid.

Tuition flexibility could have a negative effect on the Florida Prepaid Program, if flexibility is used to significantly increase resident undergraduate tuition. For instance, if university tuition increases average 10% annually, the Florida Prepaid Program would run out of money to cover current contracts by 2018. To ensure reserves are adequate to fulfill contracts under varying tuition rates, future Prepaid contract prices would need to be adjusted to cover tuition increases and the anticipated variation in rates among institutions.

**Option 2 - Allow variable tuition within universities and community colleges**

Several other states vary tuition rates as a way to meet certain state policy objectives. Depending on the objectives it is trying to achieve, the Legislature could vary or permit institutions to vary tuition rates to:

- reflect program cost;
- provide financial incentives to meet specified goals; or
- maximize use of facilities and services.

**Varying tuition based on program cost**

The Legislature could use variable tuition rates to shift higher education costs to students who incur them rather than equally dividing these costs among all students. For example, academic programs leading to professional degrees such as those provided in schools of nursing or engineering often have higher costs than liberal arts programs. To accomplish this, the University of Alabama-Birmingham charges varying tuition rates to undergraduate students who attend different schools within the university. Exhibit 2 shows how tuition rates vary for University of Alabama-Birmingham students. For example, students who attend the university’s School of Health-Related Professions pay $25 more per hour than do students enrolled in the university’s core liberal arts programs.

**Exhibit 2**
**Example of Varying Tuition Based on Academic Program**

<table>
<thead>
<tr>
<th>Program</th>
<th>Tuition (per credit)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Schools of: Arts &amp; Humanities; Business; Education, Engineering, Natural Sciences &amp; Mathematics; Social &amp; Behavioral Sciences; and General Studies</td>
<td>$116</td>
</tr>
<tr>
<td>School of Health Related Professions</td>
<td>141</td>
</tr>
<tr>
<td>School of Nursing</td>
<td>129</td>
</tr>
<tr>
<td>School of Public Health</td>
<td>120</td>
</tr>
</tbody>
</table>

Source: The University of Alabama-Birmingham. 2003-04 tuition for resident undergraduates per course enrolled in that program.

Florida community colleges could use variable tuition to set higher rates for students taking courses in higher-cost categories (such as health and fine and applied arts) or to set lower rates for students taking courses in lower-cost categories (such as business management or mathematics).

In addition, Florida could vary tuition rates to reflect the cost difference between upper and lower division courses. Currently, Florida universities charge the same tuition for upper- and lower-division courses, although costs for upper-division courses are higher. In Fiscal Year 2002-03, the state universities spent an average of

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10 A prepaid contract allows future college students to ‘lock in’ the cost of higher education. After making regular investments into the program, the beneficiary receives funding for tuition and fees sufficient for the average number of hours required to earn a standard bachelor’s degree. The prepaid tuition contract covers the matriculation fee (tuition), and fees for financial aid, building, and the capital improvement trust fund. In addition, prepaid contracts may be purchased to cover local fees and room and board costs.

11 See Florida Prepaid Program is Fiscally Sound; Numerous Options Exist for Mitigating Effects of Large, Sustained Long-Term Tuition Increases OPPAGA Report No. 03-22, March 2003, for more discussion about the effect of tuition increases on the Florida Prepaid College Program.

12 See Prepaid College Fiscally Sound, Additional Changes May Be Appropriate OPPAGA Report No. 04-33, May 2004, for more discussion about potential changes that may increase the actuarial soundness and affect long-term pricing policies for the Florida Prepaid College Program.

13 Universities divide their majors and programs into academic colleges or schools. Community colleges often divide their programs into divisions and departments.
$167.81 per credit hour for lower division courses compared to $244.36 per credit hour for upper-division courses.

Exhibit 3 shows the potential effect of varying tuition to reflect the average costs for upper and lower division students. In 2002-03, student tuition covered 24% of the cost for upper division students and 35% for lower division students. If both upper and lower division students pay the same percentage of the average cost per credit hour, Florida universities could set tuition rates at approximately 28% of the total cost per credit hour. These rates would be revenue neutral for universities but would better reflect the actual costs of instruction.

**Setting tuition rates to provide financial incentives to meet specified goals**

The Legislature could allow universities or community colleges to vary tuition rates to achieve various goals such as encouraging students to enroll in areas of critical need or making higher education more affordable to low-income students.

- **Encouraging students to enroll in areas of critical need.** The Legislature could offer lower tuition for programs considered to be areas of critical need, such as nursing or teaching, to encourage students to enroll in these programs. Reducing tuition rates for critical need areas could provide additional market incentives for students to pursue training in high need areas or areas of expected future job growth.

- **Making higher education more affordable to students with financial need.** The Legislature could offer different tuition rates based on student financial need, which would allow limited state resources to be targeted toward students with the least financial resources. Students with a greater financial need would pay lower tuition, and the state would subsidize more of the cost of educating these students. For example, tuition rates could be based on student financial need as calculated from the federal Free Application for Federal Student Aid.

**Varying tuition to maximize facilities use**

Variable tuition rates also could be used to maximize the use of available classroom space in universities and community colleges. To maximize the use of its facilities, the University of Oregon charges tuition rates that are 15% below its usual rate for selected courses taken before 9 A.M. or after 3 P.M. The university reports that 37% of its students took advantage of the plan during the 2003 fall term and estimates that it will offer 25% of its undergraduate credit hours under its reduced price plan.

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14 Current scholarship programs for areas of critical shortage include paying 100% of in-state tuition for students entering teaching programs. Teaching programs funded in 2003-04 include the Critical Teacher Shortage Program and the Minority Teacher Scholarship Program. Areas of critical shortage (and scholarships addressing those areas) are identified annually in the General Appropriations Act.

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<table>
<thead>
<tr>
<th></th>
<th>CURRENT: All Students Pay $58.45 per Credit Regardless of Academic Level</th>
<th>ALTERNATIVE: All Students Pay 28% of Cost for All Credits</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Lower Division Students</td>
<td>Upper-Division Students</td>
</tr>
<tr>
<td>Cost per credit hour</td>
<td>$167.81</td>
<td>$244.36</td>
</tr>
<tr>
<td>Tuition per credit hour (2002-03)</td>
<td>58.45</td>
<td>58.45</td>
</tr>
<tr>
<td>Percentage of Cost Paid by Student</td>
<td>35%</td>
<td>24%</td>
</tr>
<tr>
<td>Annual Tuition Per Student</td>
<td>$1,402.80</td>
<td>$1,402.80</td>
</tr>
<tr>
<td>Change in Annual Tuition</td>
<td>$1,402.80</td>
<td>$1,402.80</td>
</tr>
</tbody>
</table>

Note: Annual tuition per student based on students taking 24 credit hours during fall and spring semesters (this does not include any credits taken during summer terms).

Source: OPPAGA analysis based on 2002-03 General Appropriations Act and 2002-03 State University System Expenditure Analysis.
If Florida were to design its tuition rates similar to those at the University of Oregon, it could provide incentives to students to take classes during periods when classrooms are used the least. State universities typically experience dips in classroom use early in the morning, in the evening and on Friday afternoons. For instance, only about one-third of university classrooms are in use from 8 A.M. to 9 A.M. weekdays, and approximately 22% of university classrooms are in use on Fridays between the hours of 2 P.M. and 5 P.M.

Similar to state universities, community colleges experience low utilization rates early in the morning and on Friday afternoons. For example, while Friday afternoon utilization rates vary by community college, at most institutions these rates are below 10%. Unlike universities, community college classroom usage is higher in the evenings and dips during weekday afternoons. By offering lower tuition during periods when classrooms are underutilized, state universities and community colleges may be able to offer additional courses using existing classroom space and could reduce the need to build additional classrooms.

It should be noted, however, that offering non-peak tuition rates could reduce tuition revenue unless it is offset by a tuition increase. The University of Oregon estimates that it will forgo $1.5 million in tuition during the 2003-04 school year. A non-peak tuition plan similarly utilized at Florida institutions could result in an estimated loss of up to $16.5 million in tuition revenue. This could be offset by a 5% tuition increase for students taking courses at peak times.

**Disadvantages of variable tuition rates**

Implementing any of the three variable tuition options discussed above may have some drawbacks. Some options could reduce access and affordability for some Florida students while increasing access for others. Establishing different tuition rates based on student financial need also may increase the costs of Bright Futures Scholarships for students with low financial need or create the need to cap the amount of these scholarships. In addition, some of the options, such as basing tuition rates on student financial need, could be cumbersome to administer as they would require establishing different tuition rates for individual students or programs.

**Option 3 - Charge Block Tuition Rates**

A third option would be to allow Florida’s higher education institutions to charge block tuition rates for full-time undergraduate students. The Legislature considered this option for universities during the 2004 Session. Under block tuition rates a student is charged a flat tuition rate for a range, or “block” of credits. Students may take additional courses without paying increased tuition. For example, under a 12-18 credit hour semester block, students would be charged the same amount for any number of credits between 12 and 18 credit hours.

Many (55% or 41 of 75) peer institutions of Florida’s universities have some form of block tuition. If Florida universities established a block of 12-18 credits and charged students a block rate equivalent to the current resident undergraduate tuition for 15 hours per semester, the block tuition rate would be $951.15. A similar block tuition plan at community colleges would result in a charge of $649.20 per semester.

Block tuition gives students a financial incentive to take an increased number of credit hours which could help students graduate more quickly. These incentives can translate into savings for students (see Exhibit 4). For example, based on block tuition of $951.15 per semester, if a university student takes 15 credit hours instead of 12, he or she would save $2,402 at the end of the 120 hours needed to get a degree. In addition, taking 15 credit hours a semester instead of the average of 12 credit hours students now take could help more students graduate within four years.

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15 Classroom usage data from the Department of Education tracks hours during which classrooms are used for credit instruction only. This would not include classroom usage for non-credit instruction purposes.

16 For a list of Florida peer universities and a description of how they were selected see Information Brief: Florida Universities’ Tuition and Fees Slightly Below Peers, But All Costs Consume a Higher Percentage of Family Median Income, OPPAGA Report No. 04-12, February 2004.

17 Currently, Florida undergraduate university students earn an average of 12 credit hours per semester in the fall and spring semesters.
Exhibit 4
Block Tuition Provides a Financial Incentive for Students to Take More Credit Hours Per Semester

<table>
<thead>
<tr>
<th>Course Load Per Semester</th>
<th>Per Semester Charge</th>
<th>Average Charge Per Credit Hour</th>
<th>Tuition Paid to Complete a Degree</th>
</tr>
</thead>
<tbody>
<tr>
<td>12 Credit Hours</td>
<td>$951.15</td>
<td>$79.26</td>
<td>$10,723.44</td>
</tr>
<tr>
<td>15 Credit Hours</td>
<td>$951.15</td>
<td>63.41</td>
<td>8,321.83</td>
</tr>
<tr>
<td>18 Credit Hours</td>
<td>$951.15</td>
<td>52.84</td>
<td>7,189.00</td>
</tr>
</tbody>
</table>

Note: Assumes a student completes a baccalaureate degree in 120 credit hours. Based on 2003-04 tuition rates per credit hour and assumes a 6% annual tuition increase.

Note: If a student takes 18 credit hours per semester and does not take any credits during the summer terms, the student would be left with 12 credit hours after the third year in order to meet the minimum graduation requirements. For these remaining credit hours, the student would pay a higher average charge for the remaining credits under the block tuition rate.

Source: OPPAGA analysis.

However, offering block tuition may not change some students’ behavior. Financial incentives for taking more courses under block tuition may not appeal to students, such as Bright Futures Scholarship recipients, whose financial aid pays the full amount of their tuition. Other students may be constrained from taking additional courses due to family obligations or economic considerations. Since block tuition rates will allow students to take additional courses with no increase in tuition, some students may choose to register for additional courses and later drop them, increasing excess hours. Therefore, while block tuition may affect student course-taking patterns, it is difficult to predict the extent of its impact.

Furthermore, since 67% of community college students and 31% of university students attend school part-time, block tuition likely will not have much influence on the course-taking patterns of a large number of students. Thus, the Legislature may wish to consider implementing block tuition first at state universities with large numbers of full-time undergraduates, before deciding whether to implement block tuition plans for other public universities or community colleges or other groups of students (such as graduate students).

Option 4 - Provide Higher Education Vouchers to Students

Higher education vouchers are another alternative for funding higher education. Under the voucher system, the state would no longer directly appropriate the amount used to subsidize tuition to higher education institutions. Instead, it would provide these funds directly to students as vouchers. Students could then use the vouchers to attend the higher education institution of their choice. These institutions could include private and public universities and community colleges, or the vouchers could be limited to public institutions.

Higher education vouchers have been promoted by some advocates who believe that a market-based system that gives customers more control over where higher education dollars are spent will force more efficiency into the higher education system. Opponents of vouchers, however, assert that the system could create perverse incentives for institutions to attract students by making classes less challenging. Since no state has fully implemented a higher education voucher system, its effect on community colleges and universities is unknown.

In 2004, the Colorado General Assembly enacted legislation authorizing a higher education voucher system. Under the Colorado system, the per student amount of higher education appropriations will be deposited into the College Opportunity Fund. This money will be credited to the public or private Colorado institution in which the student chooses to enroll. Any unused funds will be returned to the state. Voucher eligibility is restricted to the first 140 credits a student attempts.

18 Block tuition rates may impact the reimbursements of Bright Futures Scholarships and contracts under the Florida Prepaid College Program based on how the blocks are structured and how the payouts are made. For more discussion on how different tuition rates affect the costs of Bright Futures, please see OPPAGA Report No. 04-23, Program Review: Most Bright Futures Scholars Perform Well and Remain Enrolled in College (March 2004).

19 Students attending public colleges and universities would receive $2,400 per year, while those attending private institutions would receive $1,200.
Colorado pursued vouchers as a way to provide stability in funding for the state’s higher education system. Due to a constitutional amendment that imposes strict limits on the amount of money Colorado’s state government can spend, state appropriations for higher educational institutions would have decreased over time. However, because public universities were deemed to be part of state government, they could not offset projected losses in revenue by raising their tuition rates. Under the voucher system, universities became enterprise institutions, exempt from Colorado’s state spending restrictions. This allows them to raise tuition to cover their costs. Without the voucher system, university officials estimated that public institutions would have been forced to close their doors or go private.

Colorado also pursued vouchers as a way to encourage more lower-income students to pursue a college degree. A low percentage of Colorado’s students pursue college education after they graduate from high school. Colorado officials hope to encourage more students to enroll in higher education institutions by directly giving students the support the state traditionally has provided for higher education, putting more resources in the hands of students.

A voucher program would fundamentally change how Florida funds higher education institutions. If the Legislature were to consider a voucher program, it would need to address several policy issues, including where students could use vouchers (i.e., community colleges, universities, private colleges and universities, etc.), how the vouchers would be funded (i.e., using current operating funds, capital funds, etc.), what dollar value the voucher should carry, and whether this amount should differ based on the institution a student chooses. Money received by institutions from vouchers could result in significant annual fluctuations and may make long-range planning and budgeting difficult for institutions.

The potential advantages and disadvantages of vouchers would depend on the answers to these questions and other decisions made regarding the design and structure of a voucher system. The Legislature may wish to wait to see the effects of the Colorado system before considering a voucher system in Florida.