

EQUITY OF FUNDING THE FLORIDA UNIVERSITY SYSTEM



Council for Education Policy,
Research and Improvement

<http://www.cepri.state.fl.us>

The Council for Education Policy, Research and Improvement (CEPRI) was created as an independent office under the Office of Legislative Services by the 2001 Legislature (Section 1008.51, Florida Statutes). The Council serves as a citizen board for independent policy research and analysis and is composed of five members appointed by the Governor and two members appointed by Speaker of the House and two members appointed by the President of the Senate.

January 8, 2003

Introduction

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, leading to a new methodology and an appropriation for four universities. However, the Legislature also adopted directives to CEPRI and the State Board of Education to study the issue.

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.

The study identifies the "Big Picture" issues that should be incorporated into a funding formula. An equity funding adjustment for an individual university should be based on a more detailed analysis than is included here.

Major Findings:

Funding per FTE for each institution was compared to its peers nationally. 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. 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. However, an equity funding adjustment for an individual university should include a more detailed analysis than is included in this report. Because of the lack of funding detail from other states, such an analysis was not possible for this study.

Major Recommendations:

CEPRI recommends that the formula currently used by the Legislature to fund enrollment growth be adjusted to recognize the instructional mission of research in doctoral programs, and that student fees be differentiated by university classification.

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, CEPRI recommends that the Department of Education (DOE) develop a standard methodology for determining the equity of funding and establish a fixed schedule to review equity, using the standard methodology. Any needed funding adjustments for equity should be included in the Department's Legislative Budget Request.

Definition of Equity

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.

Methodology

University presidents were asked to complete a survey to define the issues important to equity funding. 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. The Council analysis focused on universities in existence prior to 2002. Consequently, New College was not addressed in this part of the

study.

Public hearings were held on: November 6, 2002, in Sarasota; December 11, 2002, in Jacksonville; and January 8, 2003, in Tallahassee. 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 for review by DOE staff, legislative staff, and staff in the Governor’s Office.

ASSESSMENT OF EQUITY OF FUNDING

Part I : Recommendations for Immediate Consideration

Mission/Levels of Instruction:

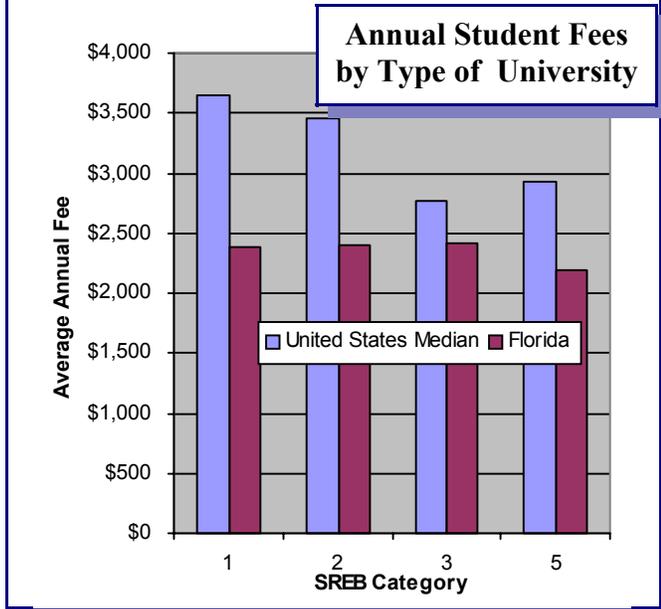
Funding per Full Time Equivalent (FTE) for each institution was compared to its peers nationally. If equity in funding existed, the expectation would be that each Florida institution would have a similar percentage of funding compared to its U.S. peers. That is not the case. Three institutions receive 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

be based on 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 (SREB) 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

Unlike the typical practice, Florida makes no distinction among 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.



and economic goals and the cost efficiency and cost effectiveness of the changes. (NOTE: See page 5 for more detail on SREB classifications.)

2. The formula currently used by the Legislature to fund enrollment growth should be adjusted by the 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

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:

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

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

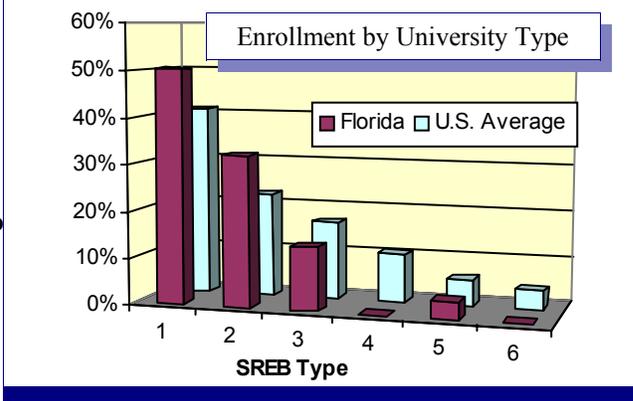
b. Provide for an equitable level of funding of each of Florida's universities relative to universities in other states that have similar missions; and

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.

Florida delivers relatively more instruction through its research universities (types 1&2) and less through bachelors and masters degree-oriented teaching institutions than is typical in other states.



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 disqualifying 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. 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)?

Recommendation:

7. Equity discussions should be limited to the enrollment funding formula. 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 institutional size may result in reductions in the average 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. 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.

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.

Age of Institution

There are obvious disparities in expenditures per Gross Square Foot (GSF), and the reasons those disparities exist 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 underfunded, 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 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

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.

10. Working in conjunction with the state universities, the Division of Colleges and Universi-

ties (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 the Post-secondary Education Planning Commission in 1988, to assure optimum efficiency in the delivery of services.

Except for a few years during the 1990s, funding has been based on the average cost per FTE for instruction, but only on a percentage of the average cost per FTE for 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.

Summary of 1994 Through 2003 Equity Appropriations By Planned Use

	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
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
Student Services				1,073,812			1,006,279	312,100	97,276	2,489,467
Not Specified							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

The Southern Regional Education Board (SREB) system for categorizing postsecondary education institutions is designed for use in making statistical comparisons among states. To keep the statistical comparison groups relatively stable over time and to assure that institutions change categories only when their measures on a criterion are relatively stable, institutions change categories when they meet the criterion for another category for the third consecutive time.

SREB CLASSIFICATIONS

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

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 policy-

makers 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

Part II-B reflects issues that may be examined if the status quo is largely maintained. Please refer to the report for discussion of these issues.

Please visit our website at <http://www.cepri.state.fl.us> for the full report

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