

**A Higher Education Funding Model to
Support a Prosperous Maryland**

Appropriate Funding Shares Workgroup

of the

**Commission to Develop the Maryland
Model for Funding Higher Education**

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CONSIDERATIONS

Purpose

This document is the result of a directive by the Governor and General Assembly through legislation to recommend an appropriate model for funding higher education in the State, including both the general appropriations for the various higher education institutions and the State's contribution to financial aid, that will ensure a high quality, accessible and affordable education for academically qualified citizens. While prevailing economic conditions may at times preclude rigorously following the funding model, it is nonetheless important to have a benchmark for measuring the adequacy of the State's long-term investment in higher education. The proposed Maryland funding model provides a road map that should achieve the goal of producing a well-educated citizenry. With this education, an individual would be capable of meeting workforce needs and growing the State's economy—thus assuring a high standard of living for all citizens. In defining such a model, it is deemed important to avoid arbitrary rules to the greatest extent practicable and to rely instead upon formulas and methodologies having a reasonable basis in logic.

Impact of Higher Education

The standard of living of Maryland's citizens is highly dependent upon the availability of quality jobs. Twenty-first century jobs demand an increasing level of education; indeed, the new global economy is referred to as the "knowledge" economy. This continues a trend wherein some fifty years ago 7 percent of adults in America had attended four or more years of college but the corresponding figure today is 28 percent. The median annual earnings of an individual in Maryland with less than a high school education are \$26,000. Individuals holding a bachelor's degree on average earn \$56,000 ... and individuals with a graduate or professional degree earn \$73,000. The correlation between educational attainment and personal income is extremely strong (0.83) across the various states—although there are undoubtedly "cause and effect"

interrelationships in the data. Maryland ranks first among the states in the fraction of professional and technical workers in the workforce, fifth in the fraction of the population ages 25 to 44 that possesses at least a bachelor's degree, and fourth in personal income per capita. It is Maryland's institutions of higher learning that produce much of the talent and that perform much of the research underpinning the creation of new jobs in the state.

Global Competition

In the twenty-first century it matters less and less how Maryland's educational system compares with that of other states; what matters today is how it compares with the best of other nations, including China, India, Singapore, Japan, Ireland, and others. Unfortunately, there is a limited amount of comparable data regarding levels of investment, funding sources, outcomes, etc. for foreign institutions of higher education. Thus, comparisons with selected U.S. peer states are often used as a proxy, but a proxy that must be interpreted with care. Available data show that 39 percent of the U.S. population between the ages of 25 and 34 hold college degrees; Maryland's comparable figure at 44 percent is above the national average. This compares with 53 percent for Japan, 51 percent for South Korea, 41 percent for Ireland, and 22 percent for Germany. Developing countries such as China and India generally evidence much smaller proportions of graduates in their population; however, because of the size of their population, the absolute numbers can be immense.

Role of Science and Engineering

Over half the growth in the nation's gross domestic product (GDP) in recent decades has been attributed to advances in science and engineering, as has two-thirds of the nation's productivity gain. Virtually all workers in the 21st century global economy will need to be math and science literate, and some will need extraordinary skills in these fields. Scientists and engineers comprise only four percent of the U.S. workforce; however, they disproportionately create the jobs held by the other 96 percent. Corporations are increasingly establishing research

and engineering facilities, and the jobs that go with those facilities, abroad—not simply because of low labor costs but also because of the availability of educated talent pools. The vice president of Intel has warned, not atypically, “We go where the smart people are. Now our operations are two-thirds in the U.S. and one-third overseas. But that ratio will flip over in the next ten years.”

Attracting Students

Maryland is a net-exporter of *student* talent; i.e., more Maryland students receive their higher education out of state than students from other states receive their higher education in Maryland. This trend has been partially offset by Maryland’s ability to attract degreed talent by virtue of its substantial existing corporate presence, medical centers and proximity to the federal government. Hence, Maryland today is a net importer of *degrees*. Three out of four Maryland residents possessing a bachelor’s degree or higher were born in other states. A primary reason that such individuals move to Maryland is that there are quality jobs to be found in the State, a presumption that will be sustained only if the State continues to invest in education and remaining competitive. This is particularly true in the hi-tech world, where business sectors appear and disappear with a regular frequency. That is, one cannot survive on the efforts of others.

Enrollment

Maryland’s diverse higher education system includes 13 public colleges and universities, two public research institutes, 31 independent degree-granting institutions, 16 community colleges and 176 private career schools. Over 326,000 individuals are currently enrolled in higher education in the state. Of these, 45 percent are attending public four-year institutions, 38 percent are enrolled in community colleges, and 17 percent in independent institutions. Within the context of current available resources, over the next decade headcount is expected to increase at a moderate rate i.e., at about 2 percent per year.

Quality

Although there are no accepted absolute measures of educational quality, substantial differences in rankings by independent organizations probably do have substance. Maryland's "Flagship Institution," the University of Maryland, College Park (UMCP), is ranked 18th among public national universities in the most recent *U.S. News and World Report* assessment. Overall, among all public and private national universities, UMCP is ranked 53rd. Johns Hopkins University appears on this list as well, ranked 15th overall among all national universities. Other Maryland institutions, both public and private, also appear in national rankings.

At University of Maryland, Baltimore (UMB), the State's public academic health center, the School of Medicine is ranked 7th among public medical schools in research funding by the American Association of Medical Colleges. UMB also has several graduate and professional schools, with four of the professional schools ranked in the top 20 of all public and private universities by *U.S. News and World Report*: Nursing 7th; Pharmacy 8th; Law 15th (among public universities only); and Social Work 18th.

With regard to historically black universities, Morgan State University is ranked 9th among public historically black institutions nationally (19th overall among public and private *historically black* institutions) and University of Maryland Eastern Shore is ranked 16th (27th overall). Among public liberal arts colleges, St. Mary's College of Maryland is ranked 4th (and 84th overall including private colleges). Two of the State's private colleges are also ranked in this category, Washington College at 94th and Goucher College at 111th.

The State also has two public universities ranked in the northern master's universities category. Salisbury University is ranked 7th among public universities in this category (35th among public and private institutions overall) and Towson University is ranked 8th (40th overall). Several of Maryland's private colleges rank in this category as well, including Loyola

College of Maryland 2nd, Hood College 19th, Mount Saint Mary's University 26th, and the College of Notre Dame 30th. Finally, Stevenson University (formerly Villa Julie College) is ranked 15th among northern baccalaureate universities.

While the State's institutions continue to improve, the overall rankings of Maryland institutions cannot be considered acceptable in the knowledge.

Input to Higher Education Systems

According to the College Board, Maryland ranks second in the nation in the fraction of graduating high school seniors who have passed at least one Advanced Placement (AP) examination, and first in improvement over the past five years. As is the case in all other states, African-American students are still severely underrepresented among those passing AP examinations. For many students, the gap between qualifying for a high school diploma and readiness to undertake college work remains large. Overall, fifty-six percent of the students who enroll in Maryland public higher education institutions are in need of remedial assistance before they are judged prepared to pursue the academic programs offered by those institutions. In the cases of community colleges and historically black institutions, the corresponding figures approach 72 percent. (Seventy percent of incoming undergraduate students needing remedial attention had "B" or above high school grade averages.) This shortfall imposes a substantial additional financial burden on institutions of higher education, prolongs the educational process, and leads to discouraged students who drop out of the educational pipeline.

Graduation Rates

Seventy-four percent of Maryland 9th graders attending public high schools graduated four years later (the U.S. average is 68 percent). Of graduates from Maryland public high schools, 48 percent are awarded a bachelor's degree within six years. (The U.S. average is 52 percent.)

The Importance of Output Measures

While there are abundant measures of “input” to the state’s higher education institutions, there are only limited measures of “output.” The latter include institutional rankings by independent organizations, graduation rates, refereed articles in research journals, technology transfer successes, etc. Much analysis and a strengthened data base are needed to address this shortcoming because it is output, not input, that is the ultimate measure of an educational system. (A working group of the Commission is addressing this issue.) Nonetheless, it is common, in efforts such as the present one, to focus on “inputs” (investment per student, etc.) and to *assume* that a monotonic relationship exists between input and output. The veracity of this assumption depends, of course, in large part upon the quality of management. While it seems clear that there is not a simple linear relationship between investment and quality, to assume anything other than a monotonic relationship would be an unwarranted indictment of the entire higher education management. (Hopefully the point will be reached wherein the Maryland higher education system is so highly ranked and so efficient that further financial augmentation is not needed; however, few would argue that is today’s reality.)

Maryland Demographics

Maryland is the 19th largest state by population. The State excels, by overall U.S. standards, in such measures as median family income (ranking 2nd) and overall participation in higher education (for example, ranking 13th among states in the fraction of enrollment of 18 to 24 year-olds). However, within these “averages” enormous disparities exist. At the lowest quartile of income, Maryland is ranked 34th in college enrollment. While 41 percent of whites (non-Hispanic) in the State age 18 to 24 are enrolled, the corresponding figure among non-whites is 29 percent.

Thus, although Maryland compares favorably in many national educational metrics at the median, the less wealthy and/or minority members of the population are severely underserved. Given the size of the latter population in the state (30 percent black or African American and 5 percent Hispanic) and its position as the fastest growing element of the population (52 percent of high school graduates in 2009 are white...in 2018 the white population is projected to decline to 38 percent. By 2025 the minority population of Maryland under age 18 is forecast to increase by 170,000, while the number of white, non-Hispanic citizens in the same age cohort will decline by 33,000. This imbalance in opportunity and outcomes can be considered to be the State's most serious higher education concern.

Sources of Funds

The cost of a student's higher education is generally funded from one or more of three often unequal primary sources: (1) state allocations, (2) family contributions, including student employment and loans, and (3) financial aid (federal, state and institutional). In the case of community colleges, counties usually represent another source of contribution. It is worthy of note that over the longer term, endowed institutional scholarships could represent an increasingly important resource. Various options exist with regard to the above sources of funding, with each option having unique benefits and liabilities. The more prominent of these choices are summarized for "state support," "student/family support" and "financial aid support" in Appendix I, II and III, respectively.

Findings

Investment in Higher Education

Although Maryland ranks 2nd in median family income and, on a per capita basis, 4th among the 50 states in personal income, it ranks 21st in higher education appropriations per capita, 34th in the fraction of state personal income devoted to higher education, and 19th in higher education appropriations per full-time equivalent (FTE) student. Maryland now ranks 12th in need-based undergraduate grant dollars per undergraduate FTE. Increased funding that began in fiscal 2005 for need-based aid has improved Maryland's ranking in this regard from its previous 23rd place. However, as a percentage of higher education operating expenses, Maryland is ranked 29th in total grant funds. It also ranks below the median in need-based financial aid as a fraction of tuition.

These comparisons include all 50 states; however, Maryland, because of the nature of its business-base and the State's geographical location, must compete with a much more select group of states and institutions for the creation and retention of jobs. According to the Department of Business and Economic Development, Maryland primarily competes with the following 10 states on a regular basis for new businesses and jobs: Pennsylvania, Virginia, Massachusetts, North Carolina, New Jersey, and New York in the East coast/mid-Atlantic region; and on a national basis, California, Minnesota, Ohio and Washington state.¹ The State's substantial investment that made it possible to hold tuition constant the past three years has had a major positive impact on many of the parameters by which accessibility and affordability are measured.

¹ Several methodologies for selecting "competitor" states were examined, all of which produced generally comparable results. The states listed here were selected based upon input from the Department of Business and Economic Development.

Tuition and Predictability of the Cost of Education

The increase of gross and net (after financial aid) tuition at U.S. universities has for several decades far exceeded both the inflation rate and the growth of median family income. Unfortunately, Maryland is no exception in spite of a tuition freeze the past three years. Relative to other states, Maryland's tuition in fall 2007 was 30 percent above the average of all states for comprehensive universities (7th highest) and 16 percent above the average for flagship universities (19th highest). However, Maryland ranking in average tuition and fee at public four-year institutions has dropped from 7th highest in 2005, before the tuition freeze for in-state undergraduations, to 16th highest in 2008, as calculated by the College Board. Maryland's average community college tuition is ranked 16th highest in the country in 2007.

Not only is the absolute tuition level of concern to students and their families, but so too is the predictability of tuition—an essential ingredient in college financial planning, particularly for those of lesser means. A number of states have experimented with “tuition guarantees” by guaranteeing tuition over a two-year or four-year period. This typically results in a higher initial tuition than would be the case without such guarantees (an “insurance premium”). Depending on the type of guarantee, the cost-of-education risk shifts from the student and student's family to the state (taxpayer). Nonetheless, plans of this type have been implemented by a number of states as summarized in Appendix IV. The risk of providing tuition certainty in an environment of tax revenue uncertainty has generally led to a tendency to set tuition rates conservatively, and produced results that at best can be characterized as highly problematical.

Need-Based Financial Aid

To produce an educated workforce for the jobs of the 21st century, disadvantaged and low to moderate-income students as well as financially advantaged students must have the opportunity for a higher education—and it must be affordable. The State offers need-based

scholarships to full and part-time, graduate and undergraduate students. However, these programs have not kept pace with increases in tuition and fees. The State's largest need-based program, the Delegate Howard P. Rawlings Educational Excellence Award Program, has a maximum grant of \$3,000 that has not increased since it was established in State law in 1991. With all sources of financial aid combined, State, federal, and institutional, community college aid recipients with the lowest expected family contribution (EFC) had the highest amount of unmet need, even if they undertook loans. At the public four-year institutions, Pell-eligible aid recipients had the highest level of unmet need, even if they took out loans. This trend needs to be reversed to ensure that lack of funding or high debt is not shattering a needy yet qualified student's dream of a higher education. Recent significant increases in financial aid by some of the nation's more highly endowed institutions have further increased the pressure on Maryland and the other states. For example, a family with an income of \$80,000 can now send two children to Harvard or three to Yale for the cost of sending one without financial aid to the University of Maryland, College Park. On the other hand, there is some evidence that the fraction of Maryland students with education-derived debt is greater than in most states.

Merit-Based Financial Aid

It is important that the opportunity for a quality higher education be available to all qualified individuals throughout the entire spectrum of the state's citizenry who desire to pursue such a goal. This accessibility must include the ability to attract some of the State's most talented students, irrespective of their personal financial circumstances. Maryland currently offers scholarships based on exceptional talent and merit to students attending Maryland colleges and universities. The proportion of students who are finalists in the State's Distinguished Scholar program (thus offered an academic award) and who elect to attend a Maryland college or university has declined to approximately 30 percent. Similarly, of the approximately 6,000 Maryland high school students who scored above 1,300 on their SAT, two-thirds elected to attend college out of the state.

The amount of the individual awards, \$3,000, provided under the State's merit programs has not increased since 1989 (this would equate to approximately \$5,300 in today's currency). These highly-qualified students often have the opportunity to attend a college of their choice that may be offering more financial assistance than Maryland. Yet, these are often the very students who one day could provide the scientific and other breakthroughs, as well as the entrepreneurial leadership, that creates new jobs for large numbers of the state's residents, irrespective of the extent of the latter's educational attainment. It is important, insofar as is practicable, that a significant share of this group of students from throughout the economic breadth of the state's citizenry be retained in Maryland. Although the State has been effective at attracting members of the existing high-tech workforce, this may not continue to be the case as new technologies emerge if the State does not offer an internal base of prominence in those new fields.

Many students begin their college career at a community college because such institutions are less expensive than four-year institutions. However, resources must be available for these students to transfer to a four-year college or university to complete a Bachelor's degree. The State currently offers the Distinguished Scholar Community College Transfer Scholarship to assist students with paying the higher cost of education at a four-year institution. All funds are currently expended for this program, with a waiting list of 364 students. Granted financial assistance, these students could continue to build the workforce of tomorrow.

Historically Black Institutions

Maryland has a strong representation of Historically Black Institutions (HBIs). The magnitude of the challenges faced by these institutions is particularly great and will require special attention and consideration if they are to be satisfactorily overcome. These challenges include the prevalence of low-income students, students requiring higher levels of remedial coursework, and a disproportionate share of working students. Today, HBI graduation rates are approximately 25 percentage points below that of the state's traditionally white schools, and SAT scores are lower by over 200 points. To date, funding decisions for these Historically Black

Institutions have largely sought to recognize these needs through negotiations and judgmental decisions. A special panel supporting the Commission has addressed this issue and recommended special funding to increase access and success for undergraduate students at HBIs based on research-based best practices for academic intervention and services, utilizing retention and graduation rates as the primary measures of performance. Experience indicates that students satisfactorily completing a remediation program produce graduation rates comparable to those not requiring remediation.

The Limitations of “Goals”

It is generally accepted that it is important to establish goals for the state’s higher education system: goals for accessibility, affordability, completion rate, etc. Unfortunately, “goals” are just that: *goals*. For example, it is generally not practicable to set enforceable commitments for future state support of education since the state has no certain way of estimating future revenues. This circumstance often leaves education vulnerable to the exigencies of the economy and occasionally raises questions as to why goals should even be established. Whatever their shortcomings, the existence of standards is an important factor in measuring and strengthening the state’s higher education system and places a spotlight on deviations from the state’s own declared objectives.

Complexity of Current Goals

The Maryland higher education system is itself extraordinarily complex. Not only does it involve a large number and variety of institutions, but those institutions vary greatly in terms of their relationships to the State. Some have associations with particular counties, some do not. Some are private, most are not. Some belong to the University System of Maryland, others do not. There are 22 separate State programs for awarding financial aid. There are at least three different, independent sets of goals currently used for determining the appropriate level of state investment in higher education, each potentially contradictory with the others. These include: (1) contributing a fixed percentage (15.5%) of state revenues to higher education; (2)

contributing funds equivalent to the 50th or 75th percentile of a set of peer institutions selected based on educational similarity; and (3) tailoring state contributions such that they equal a specific fraction of the total cost of education—for example, as in the case of (most but not all) community colleges, one-third from the state, one-third from the student and one-third from the county.

Formulas Keyed to Competitor States and Institutions

One formula currently in use for most of the State’s four-year public universities, known as the funding guidelines, sets a state investment goal at a specified percentile of state support of a comparator group of “peer” institutions across the country. The peer group includes institutions of similar size, academic program makeup and demographics, and provides a funding target that recognizes through a factoring system the diverse characteristics of institutions—for example, a medical school at University of Maryland, Baltimore (UMB) or engineering programs at several Maryland institutions. In the case of most of the institutions, the target has been set at the 75th percentile; however, several institutions, such as UMCP and UMB, have different targets.

No state, certainly not Maryland, wishes to be “average”...however, if *all* states set their investment target at the 75th percentile, the “Lake Wobegone effect” causes investment demands to gradually approach infinity. Similarly, it arguably makes no sense to set Maryland’s goals based on the “average” investment policies of *all* the other 49 states, since Maryland must compete with a unique, highly excelling group of states for jobs—as well as for students. Thus, various select comparator groups of states have on occasion been considered to be justified. It should be noted that the use of a standard above the 50th percentile may be appropriate while a state is in a “catch-up” or “move-ahead” mode, but in the longer term is not sustainable—unless other states dramatically under-invest. Thus, any standard above the 50th percentile should be periodically reexamined in the context of progress made towards academic leadership.

High-Cost/High-Value Disciplines

There exist certain academic disciplines that the state has a particular interest in promoting because of their potential impact on creating a spectrum of jobs in the state or otherwise improving the quality of life in the state. Some of these disciplines, such as engineering, science and nursing, impose higher costs than, say, a liberal arts education, due to the need for laboratories, special equipment and additional course demands. If consideration is not given to this factor in making funding allocations, institutions may actually be deterred from promoting these fields. The issue therefore arises whether the state budget allocation process should recognize these additional financial demands and, if so, how? To the extent that state funding is based upon comparisons with other *like*-institutions, such as the funding model defined herein, this consideration is implicitly but approximately recognized. Certain other funding models do not take these disparities into consideration.

Out-of-State Students

It is generally accepted that since Maryland taxpayers pay to operate the institutions of higher education in the state, Maryland citizens wishing to pursue a higher education should have first priority to attend those institutions. On the other hand, it can be argued that the state should seek to attract a share of the “best and brightest” from elsewhere in the nation and world, in the hope that they will remain and contribute to the quality of life in Maryland. Further, attracting some out-of-state students tends to enrich the educational experience of all students. At present, these students, representing 15 percent of total undergraduate FTE enrollment, may or may not be paying 100 percent of the full (i.e., not marginal) cost of education. Out-of-state students may receive federal and institutional aid. Although they cannot receive assistance through Maryland’s financial aid programs, other states do allow students to use aid at out-of-state institutions. It is noteworthy that some Maryland schools do attract considerable out-of-state and international contingents, particularly at the graduate level.

Aspirational Goals/Incentive Funding

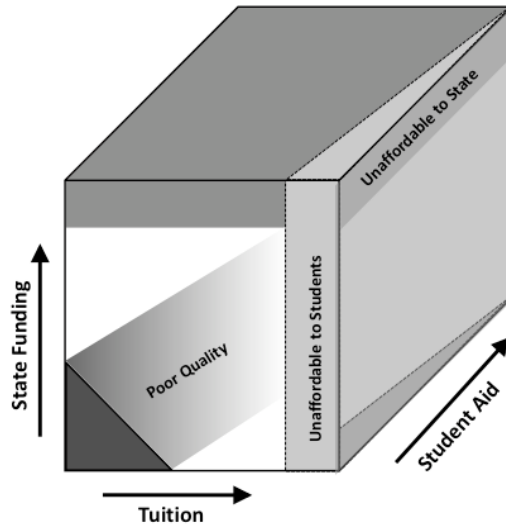
When additional funds can be made available for higher education, the question arises whether those funds should be allocated to high-performing institutions to assist them in reaching aspirational goals— both the institutions’ and the State’s— or should those funds be allocated to *underperforming* institutions to assist them in meeting basic goals.

Interlocking Formulas for Investment

Maryland has elected to determine its financial contribution (per Full-Time-Equivalent student) for community colleges and for the State’s eligible, non-profit private institutions by factoring the State’s corresponding per-student contribution from the prior fiscal year to select public four-year institutions. This has the merit of simplicity and, from a cohesiveness perspective, places disparate constituencies in “the same boat.” It has the disadvantage that individual institutions generally have unique needs that are not recognized by rigorous application of such formulas. There seems to be overall satisfaction with this arrangement; however, if desired it could be subjected to a separate review which could exceed the resources available for the present undertaking.

Categorization of Higher Education Funding Models

It is common practice to categorize higher education funding models of various states according to the extent of state support (high/low/moderate), tuition level (high/low/moderate), and financial aid (high/low/moderate). Obviously, only certain combinations of these parameters can result in a viable education system, and all possess inherent advantages and shortcomings, as illustrated graphically in Figure 1. The issue becomes one of finding the best overall compromise to support the needs of Maryland’s citizenry.

Figure 1.

Maryland, in the past, would likely be judged as embracing a moderate state support/high tuition/moderate financial aid model. Recent tuition freezes have begun to produce a significant shift in this strategy. Obviously, the choice has important implications: for example, high state investment increases the burden on taxpayers; high tuition coupled with high need-based aid essentially represents a resource transfer from those students and their families with more financial resources to those with lesser resources; and combinations such as low state investment/low tuition/low financial aid almost certainly result in an inferior education for those participating in the system.

Contingency

One approach to dampening the impact of transients in the economy on the availability of funds for higher education is to establish a contingency (“rainy day”) fund. Such a fund would require that in years of strong revenues the state would place in reserve (trust) some amount of funds that could then be allocated to offset the impact of reduced revenues in times of financial duress. Such an approach requires considerable self-discipline...however, there are a number of

examples of states and countries adopting this practice (usually for more general purposes) and doing so with considerable success. Maryland has such a fund—the Revenue Stabilization Fund, known as the “Rainy Day Fund” —to moderate the overall impact of sudden growth or decline in revenues. This fund, although occasionally used for higher education purposes, is not specifically prescribed for that application. Individual Maryland educational institutions also accrue their own reserves in their fund balances, which are in general applied at the discretion of each institution.

The Higher Education Investment Fund (HEIF), which was created during the 2007 special session to provide revenues dedicated to higher education operating and capital needs, could also act as a reserve or “rainy day” fund for higher education. One model would be to require that a specified fraction of any year-to-year *increase* in State revenues be deposited in an education account in the HEIF. An alternative model would be to deposit a specified fraction of any amount by which actual revenues exceed projected revenues in the current year.

Recommendations**Overarching Goals**

A possible set of primary goals for use in creating a funding model for higher education in Maryland, stated in a perhaps defensible order, is to (1) assure a quality education for all students, (2) assure access (space and affordability) for all qualified students wishing to pursue a higher education, and (3) provide, insofar as is practicable, reasonable predictability of cost to students and their families. The implications of meeting goals can be summarized as follows:

GOAL	IMPLICATION
Quality	High state support and/or high tuition
Access	High tuition and high financial aid, or low tuition
Predictability	Risk of unforeseen cost increases shifts from student/family to state (taxpayer)

A Higher Education Funding Model to Support a Prosperous Maryland

(See Figure 2.)

Underlying Principle: “Education is Among the Soundest Investments a State Can Make On Behalf of its Citizenry”

Any funding model for higher education must be premised on a recognition that the State’s ability to meet the conditions of the model will depend upon the availability of revenues and reserves. Nonetheless, it is vital to have a benchmark against which to measure the State’s progress, irrespective of the amount of funds that can be dedicated in any given year. The Higher Education Funding Model for Maryland (HEFMM) proposed herein seeks to avoid arbitrary choices and adopts the goals listed in the preceding section (quality, access and reasonable predictability), while balancing the various considerations raised in the above discussions by providing very high quality, relatively high state investment, moderate tuition and high financial aid.

The Higher Education Funding Model for Maryland (HEFMM)

1. Set as a ten-year higher education funding plan, the sum of state general funds (per FTE) plus tuition, at the 75th percentile of a comparator group of institutions (e.g., “flagship” vs. “flagship”) residing in states with which Maryland principally competes for employers (PA, VA, NC, NJ, MA, OH, MN, NY, WA and CA).² It would cost about \$597 million to achieve the new “comparator peers” guidelines in fiscal 2010 if the entire investment were to be made at one time (compared to the fiscal 2009 State appropriation), an increase of \$144 million compared to the funding guidelines previously embraced. A secondary metric, below which Maryland’s position would be considered to be deteriorating, would be the 50th percentile of the comparator group.

² The list of principal competitor states was provided by the Maryland Department of Business and Economic Development.

This in effect provides a “lower-limit” as the State moves towards what is deemed the necessary level of investment and educational quality/accessibility. (See Exhibit 1) ^{3 4}

2. Set need-based financial aid per FTE at the 75th percentile of the above comparator group of states—necessitating a significant increase in need-based financial aid. (see Exhibit 2)
3. Set (gross) in-state tuition and fees at the 50th percentile of the above comparator states...in order to provide an appropriate level of funds for education without unduly creating “sticker shock” and thereby discouraging students of moderate/modest means from applying. Community colleges should also aim, collectively, for the 50th percentile of community college tuition in Maryland’s comparator states, recognizing that exceptions will occur because the community colleges must balance both State and local government support in setting in-county tuition rates. (See Exhibit 3)
4. Establish a Tuition Stabilization Program⁵ having the following elements:
 - Set as a goal to limit increases in tuition and fees in any given year to a percent not exceed the increase in the three-year rolling average of the State’s median family income—a policy that would link tuition increases to a measure of affordability for families. Each institution should report on progress towards this goal each year, in the context of the State’s revenues and higher education contribution. (See Exhibit 4)

³ The reason for selecting the 75th percentile (rather than, say, the 50th percentile) is because overall Maryland’s institutions are broadly considered to still have “catching-up” to do with institutions in many of the states with which Maryland competes for employers (and thus jobs). Historically black institutions that would receive slightly lower funding than they currently receive in the state appropriation or funding guideline would be held harmless at the 75th percentile target and at the 50th percentile lower-limit.

⁴ “Comparable institutions” are defined as having similar academic scope, comparable size, and a somewhat similar student financial profile. For consistency, schools in the same Carnegie classification have been considered wherever possible. For UMCP, an AAU school, other AAU schools in the comparator states have been used; and for UMB, AAU schools with medical schools have been selected unless the state under consideration did not have such a school, in which case the free-standing medical center was included.

⁵ Considerable effort was devoted by the workgroup to structure a rigorous “Tuition Guarantee” program. Although highly attractive in principle, the experience of other states that have attempted such programs has been, at best, mixed. The Tuition Stabilization Program proposed herein, backed by a strong need-based scholarship program, represents a compromise version of a “tuition guarantee” designed to ease the financial planning needs of students with the exigencies inherent in the State’s ability to project tax revenues.

- Continue the Higher Education Investment Fund, which provides dedicated revenues for higher education, and create within it a “Tuition Stabilization Account” whereby in years of increasing corporate tax revenues, funds equal to one percent of tuition revenues each year (approximately a \$15 million contribution in FY 2009) and building to a maximum balance equivalent to 5 percent of tuition revenues, are maintained in the account. In years of decreasing revenues, apply appropriate portions of the fund to stabilize tuition. Institutions also should be encouraged to save a portion of tuition revenues in their fund balance during “favorable” economic times to be applied in the inevitable periods of hardship.
 - Authorize one or two institutions, at their discretion and risk, to develop a pilot “true” tuition guarantee program that provides even greater predictability in tuition. The proposed pilot program(s) should be reviewed and approved by the institution’s governing board and the Maryland Higher Education Commission before being implemented.
5. At a minimum, increase need-based aid each year to keep pace with tuition increases. Student awards can be expected to increase annually to avoid losing ground in either the number of awards made or the percent of college costs that are covered. Maximum award amounts should also be increased to recognize higher tuition and greater unmet need since the State’s need-based programs were established in the early 1990s. Below are recommendations specifically for the Educational Excellence Award Program. Other need-based aid programs, including part-time grants and graduate and professional scholarships, should consider corresponding increases in State need-based aid. (See Recommendation 2)
- The maximum award for the Educational Assistance grant should be increased to \$5,000, and a graduated scale for awards based on Expected Family Contribution should be developed and implemented.
 - Eligibility for the Guaranteed Access grant, which covers 100 percent of need up to \$14,300 for students with family income of 130% of the federal poverty limit

- (currently \$27,560 for a family of four), should be increased to 150% of the federal poverty level (approximately \$31,800 for a family of four), with smaller grants available to students with family income between 150% and 200% of the federal poverty limit. It is estimated that increasing the family income limit to 150% would cost approximately \$6 million. Adopting a threshold of 175% or 200% of the federal poverty limit would require an additional \$3.5 million or \$6.9 million.
6. Establish a “Maryland Covenant” that promises to cover 100 percent of need for low-income students (initially those students receiving Guaranteed Access grants) who satisfactorily complete a college preparatory curriculum and agree to complete a baccalaureate program in four years. The program would be a voluntary partnership between the State and higher education institutions that agree to participate, with the State maximizing eligibility for existing federal and State aid and the institutions “filling the gap” with institutional aid. The University of Maryland, College Park recently created a similar program, as has North Carolina, *which* has provided an opportunity, and an incentive, to prepare for college and graduate in four years to students who may not have otherwise been able to afford to attend college. Based on College Park’s experience and the cost of current Guaranteed Access grants, the funding gap that institutions would need to fill under the program, if they choose to participate, would be \$1 to \$1.5 million for USM institutions and \$800,00 to \$900,000 for all community colleges, in total.
 7. Recognizing the considerable remediation effort and continuing support (i.e., tutoring, mentoring, advising...) demanded of the Historically Black Institutions at the undergraduate level, a supplement should be provided over and above the figure determined from the Higher Education Funding Model for Maryland. Preliminary estimates from several HBIs suggest that \$3 million to \$4 million in total funding (each) is needed for these services, a supplement of \$1,400 per undergraduate FTE.⁶ The supplemental funding should be spent only for this purpose and only for strategies and

⁶ Institutions other than the Historically Black Institutions are not included in this adjustment. Although some have major remediation challenges of their own, none face as low graduation rates as the HBIs.

initiatives that have proven to be best practices in improving graduation rates. It is assumed that the specific programmatic and funding needs for each HBI would be developed based on a process similar to that proposed by the HBI Study Panel. The institutions receiving such supplemental funding should provide measurable goals (e.g., graduation rate) and report results against those goals yearly. The need to continue or revise such funding should be addressed periodically, considering possibly diminished need for such augmentation, the extent of program success, and other factors.⁷

8. Expand merit-based scholarships to \$6,000 and double the number of such scholarships currently granted (to 700 awards). Require that recipients maintain a grade-point average at or above a 3.3.⁸
9. Allocate funds to community colleges using the current formulas, which are set to increase through fiscal 2013, based on State appropriations per FTE to a specified set of four-year public institutions in the State. That is, State appropriations per FTE for the prior fiscal year at the degree-granting public four-year institutions except UMB, UMUC, and UB is multiplied by a factor already codified in State law. For fiscal 2010 the factor is 27 percent, increasing to 30 percent in fiscal 2013.
10. Allocate funds to eligible private colleges and universities in the State using the current formula based on state appropriations per FTE to a specified set of four-year public institutions in the State. That is, State appropriations per FTE for the prior fiscal year at all degree-granting public four-year institutions except UMB, UMUC, and UB is multiplied by 16 percent, the factor already codified in State law.
11. Create a specific State allocation to provide financial resources for special projects that meet important State or institutional goals. This incentive funding should be a special allocation from the State (perhaps through HEIF) each year equal to approximately one

⁷ The supplemental amount has been calculated by examining the cost of individual supporting activities at various existing institutions and compiling them into an integrated overall remediation and sustaining program.

⁸ Grandfather current merit scholarship recipients to the existing 3.0 grade-point average.

percent of the State funds for higher education (about \$15 million in FY 2009). Projects should be proposed by the Maryland Higher Education Commission or individual institutions and selection from among those projects be made by an independent group of qualified individuals. One factor in the selection process should be a previously demonstrated capacity to excel in improving or sustaining high academic performance.

12. Annually assess progress in meeting specified Higher Education Funding Model for Maryland funding goals by displaying the “shortfall,” in percent (positive or negative) of the three parameters shown below relative to the actual funding. This assessment should be conducted on an institution-by-institution basis, as well as in the aggregate; i.e., statewide (see graphical representation in Figure 3, attached).⁹ Time histories of this measure should also be maintained and displayed. (see graphical representation in Figure 3).¹⁰
- Total Investment in Quality (General Fund plus Tuition)
 - Affordability (Net Tuition)
 - State Investment (General Fund plus State Financial Aid)

Total Cost of the Model

The estimated steady-state annual total cost of implementing the Higher Education Funding Model for Maryland is \$701 million. Most of the cost, approximately \$600 million, is associated with investing to an extent that provides Maryland the margin to gain over the median of the states with which Maryland primarily competes to attract employers. This includes \$453 million to fund the State’s existing guidelines and an additional \$144 million for the new HEFMM guidelines. Meeting this objective over the next ten years would require an annual

⁹ Note that the measure in Figure 3 can be applied at both a state-wide level and on an institutional basis. .

¹⁰ These results should also be presented as a time-history to reveal trends

increase of \$50 million to \$100 million over inflationary growth.¹¹ The cost estimate includes absorbing the existing Access and Success program funding and adding \$6 million, bringing the total to \$12 million, to enhance academic development and support services and thereby improve graduation rates at the HBIs.

Estimated Cost to State to Fully Implement HEFMM*

Funding Guidelines at 75th percentile of peers in comparator states**		\$597,456,896
2008 update of guidelines	\$453,236,959	
Increase associated with using peers in comparator states only	144,219,937	
Need-based aid per FTE at 75th percentile of comparator states		70,117,599
Merit aid award and number of awards doubled***		12,600,000
HBI initiative - double Access and Success		6,000,000
Incentive funding for special projects		<u>15,000,000</u>
Total		\$701,174,495

*Annual cost, to be phased in over ten years in 2010 dollars

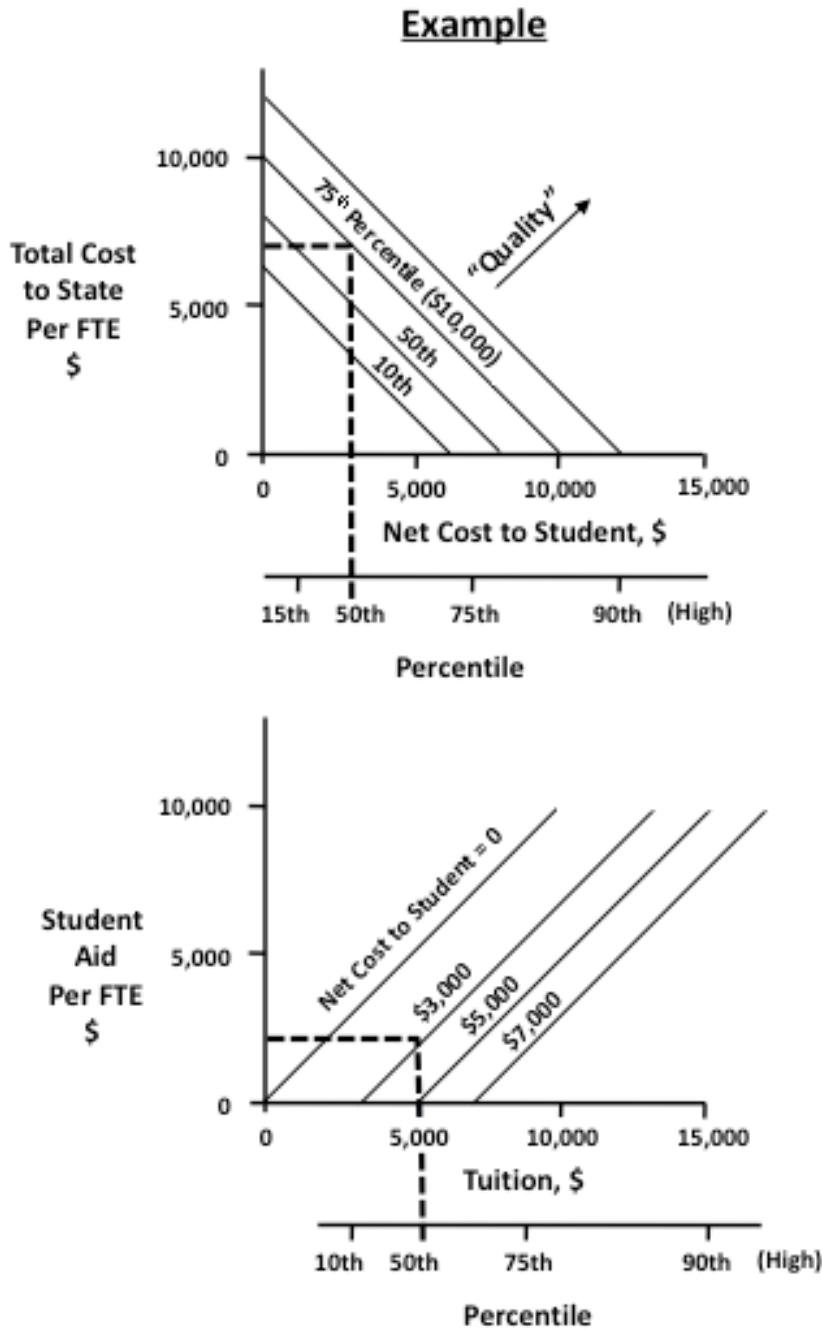
**Compared to FY 2009 working appropriation

***Assumes 100 percent acceptance rate

Recognizing the current economic and fiscal environment that the State is facing, the funding model represents a goal to guide State investments in higher education. While the intent of the funding model is to provide predictable and stable funding for higher education, recent financial events illustrate the cyclical nature of the economy. No reasonable model can predict or fully counter the roller-coaster nature of the economy or the extent of State revenues available for higher education. Ultimately, higher education institutions must manage both the upside and the downside of financial conditions. However, over a ten-year timeframe, the elements of the model, if implemented, can help higher education to better manage both aspects of the economic cycle and provide assurance to all Maryland students and their families that a high quality, affordable college education is within reach.

¹¹ Fiscal 2009 appropriation and fiscal 2010 funding guideline were both adjusted for Higher Education Price Index and projected enrollment growth, a 4% annual increase in tuition rate is also assumed.

Figure 2



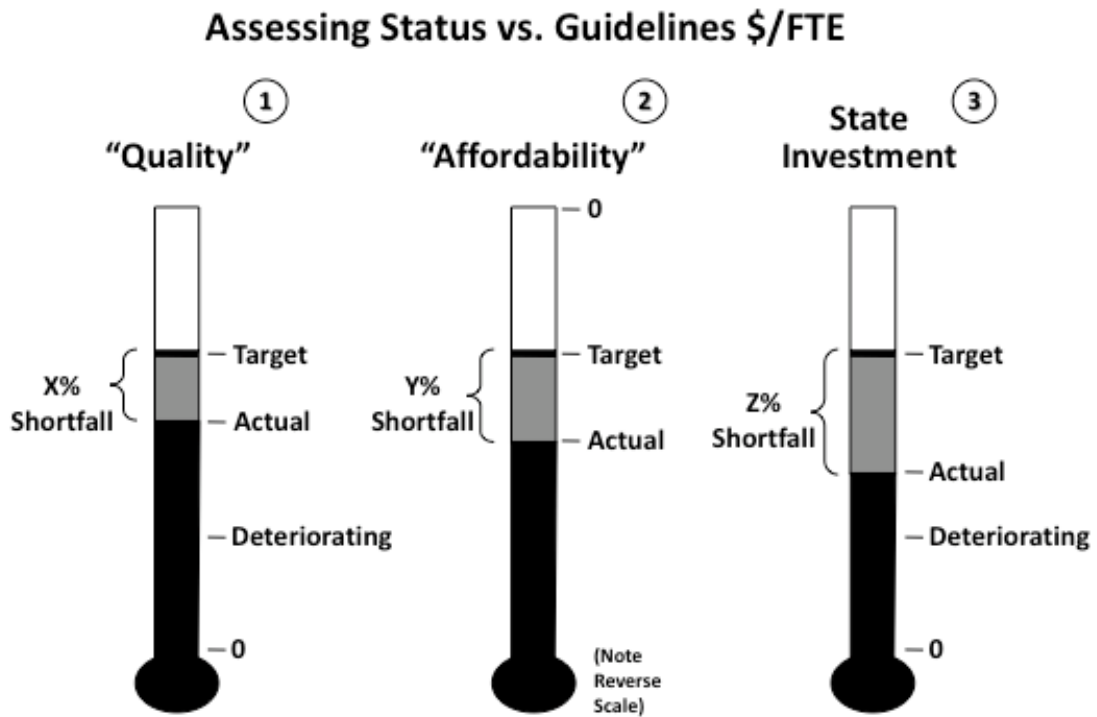
All "Per FTE"

"Quality Index" = General Fund + Tuition (Fees)

Total Cost to State = General Fund + Financial Aid

Net Cost to Student = Tuition - Financial Aid

Figure 3



- ① Total Investment (General Funds + Tuition)
- ② Net Tuition (Tuition – Financial Aid)
- ③ (General Fund + Financial Aid)

Exhibit 1
FY 2010 Institutional Funding Guideline Estimates

<u>Institution</u>	<u>FY 2009 Appropriation as of October 14, 2008</u>	<u>FY 2010 Estimated Funding Using Existing Guideline</u>	<u>HEFMM Funding Guideline</u>	<u>Total Difference between HEFMM Guideline and FY 2009 Appropriation</u>	<u>Lower Floor of HEFMM⁴</u>
Bowie State University ¹	\$36,195,921	\$46,381,193	\$45,718,445	\$9,522,524	\$35,266,287
Coppin State University	35,482,815	34,315,892	38,630,192	3,147,377	31,090,892
Frostburg State University	33,949,663	41,145,864	41,392,853	7,443,190	35,442,425
Salisbury University	40,213,962	59,745,756	66,632,770	26,418,808	57,105,392
Towson University	92,705,562	134,697,504	153,013,000	60,307,438	119,266,917
University of Baltimore	31,834,638	63,094,712	54,985,957	23,151,319	46,197,395
UM, Baltimore	187,482,507	296,532,216	289,745,016	102,262,509	228,351,096
UM Baltimore County	92,816,516	132,824,401	180,478,840	87,662,324	124,981,768
UM, College Park	426,352,682	571,045,070	633,777,472	207,424,790	501,760,256
UM Eastern Shore	33,353,061	45,601,466	44,509,068	11,156,007	35,230,469
UM University College ²	29,379,769	64,706,137	63,401,093	34,021,324	49,696,959
UM Biotechnology Institute	20,949,828	28,072,770	28,072,770	7,122,942	28,072,770
UM Center for Env. Science	18,166,872	24,343,608	24,343,608	6,176,736	24,343,608
USM Office	20,037,075				
Morgan State University ³	75,396,720	85,047,961	87,036,330	11,639,610	74,168,257
Total	\$1,174,317,591	\$1,627,554,550	\$1,751,737,412	\$597,456,896	\$1,390,974,489

Notes:

1. Tuition revenue for Bowie State backs out tuition revenue for European Operations. Bowie is included in Masters Medium classification group.
2. University College FTE Enrollment reduced for non-Maryland Online Enrollments and tuition revenue reflects statewide revenue only.
3. Tuition Revenue Estimates equal FY 2009 Tuition revenue increased by 4 percent.
4. Median of HEFMM comparator states.

Sources: Maryland State Operating Budget Books, Maryland Higher Education Commission, University System of Maryland, NCES IPEDS Peer Analysis System

Exhibit 2
Estimated Need-based Undergraduate Grant Dollars¹²

	<u>Need-based Grant Aid Awarded</u>	<u>FTEs</u>	<u>Grant Dollars/ FTE</u>
Maryland	\$93,536,000	195,042	\$465.18
Comparison States			
New York	\$843,694,000	800,960	\$1,049.27
New Jersey	249,889,000	266,377	932.86
Pennsylvania	468,319,000	512,715	893.25
Washington	181,824,000	240,454	756.11
Minnesota	162,987,000	227,926	714.44
California	763,399,000	1,500,282	508.58
North Carolina	170,127,000	366,349	486.55
Ohio	177,559,000	443,000	400.81
Virginia	102,699,000	298,571	340.83
Massachusetts	83,649,000	286,847	291.62
Comparison States 75 th Percentile	359,104,000	477,858	824.68
Difference 75 th percentile	265,568,000	282,816	359.50
Additional funding needed to reach the HEFMM goal for need-based grant dollars per FTE:			\$70,117,599

Source: National Association of State Student Grant and Aid Programs (NASSGAP), 2006-2007

¹² Derived from 2006/7 data.

Exhibit 3.1
Resident Undergraduate Tuition and Fees
Flagship Universities

<u>State</u>	<u>2003-04</u>	<u>2004-05</u>	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>	<u>% Change 2006-08</u>	<u>% Change 2003-08</u>
Maryland	\$6,759	\$7,426	\$7,821	\$7,906	\$7,969	0.8%	17.9%
Comparator States (CS)							
California	\$5,250	\$5,956	\$7,434	\$7,800	\$8,385	7.5%	59.7%
Massachusetts	7,482	9,008	9,278	9,600	9,924	3.4%	32.6%
Minnesota	7,116	8,029	8,622	9,432	9,598	1.8%	34.9%
New Jersey	7,927	8,564	9,237	9,958	10,686	7.3%	34.8%
New York	5,852	5,977	6,068	6,129	6,218	1.5%	6.3%
North Carolina	4,072	4,451	4,613	5,033	5,340	6.1%	31.1%
Ohio	6,412	7,446	7,795	8,667	8,676	0.1%	35.3%
Pennsylvania	9,206	10,856	11,508	11,905	12,844	7.9%	39.5%
Virginia	5,964	6,600	7,180	7,845	8,500	8.3%	42.5%
Washington	4,863	5,181	5,505	5,880	6,280	6.8%	29.1%
National Average	\$5,221	\$5,701	\$6,172	\$6,618	\$7,029	6.2%	34.6%
CS 50th Percentile	\$6,188	\$7,023	\$7,615	\$8,256	\$8,588		
Maryland Higher (lower) than CS 50th percentile	\$571	\$403	\$207	-\$350	-\$619		

Source: 2007-08 Tuition and Fee Rates A National Comparison, Washington Higher Education Coordinating Board, March 2008

Exhibit 3.2
Resident Undergraduate Tuition and Fees
Comprehensive Universities

	<u>2003-04</u>	<u>2004-05</u>	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>	<u>% Change 2006-08</u>	<u>% Change 2003-08</u>
- Maryland	\$5,747	\$6,252	\$6,755	\$6,942	\$7,168	3.3%	24.7%
Comparator States (CS)							
California	\$2,649	\$2,993	\$3,225	\$3,228	\$3,604	11.6%	36.1%
Massachusetts	4,988	5,556	5,882	6,286	6,592	4.9%	32.2%
Minnesota	4,517	5,098	5,251	5,656	5,894	4.2%	30.5%
New Jersey	7,166	7,875	8,653	9,269	9,919	7.0%	38.4%
New York	5,129	5,171	5,238	5,318	5,379	1.1%	4.9%
North Carolina	2,812	3,129	3,244	3,652	3,915	7.2%	39.2%
Ohio	6,620	7,139	7,567	8,162	8,167	0.1%	23.4%
Pennsylvania	5,820	6,103	6,263	6,464	6,743	4.3%	15.9%
Virginia	5,023	5,479	5,906	6,426	6,854	6.7%	36.5%
Washington	3,700	3,947	4,178	4,419	4,572	3.5%	23.6%
National Average	\$4,173	\$4,547	\$4,872	\$5,201	\$5,526	6.2%	32.4%
CS 50th Percentile	\$5,006	\$5,325	\$5,567	\$5,971	\$6,243		
Maryland Higher (lower) than CS 50th percentile	\$742	\$927	\$1,189	\$971	\$925		

Source: 2007-08 Tuition and Fee Rates A National Comparison, Washington Higher Education Coordinating Board, March 2008

Exhibit 3.3
Resident Undergraduate Tuition and Fees
Community Colleges

	<u>2003-04</u>	<u>2004-05</u>	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>	<u>% Change 2006-08</u>	<u>% Change 2003-08</u>
Maryland	\$2,675	\$2,875	\$3,057	\$3,093	\$3,129	1.2%	17.0%
Comparator States (CS)							
California ¹	\$540	\$780	\$780	\$690	\$600	-13.0%	11.1%
Massachusetts	3,267	3,385	3,477	3,526	3,661	3.8%	12.1%
Minnesota	3,149	3,822	4,042	4,283	4,444	3.8%	41.1%
New Jersey	2,647	2,771	2,934	3,115	3,275	5.1%	23.7%
New York	2,956	3,080	3,257	3,425	3,563	4.0%	20.5%
North Carolina	1,136	1,216	1,264	1,334	1,414	6.0%	24.5%
Ohio	2,717	2,876	3,011	3,169	3,179	0.3%	17.0%
Pennsylvania	2,417	2,635	2,849	2,980	3,076	3.2%	27.3%
Virginia	1,883	2,006	2,135	2,269	2,404	5.9%	27.7%
Washington	2,142	2,313	2,445	2,586	2,676	3.5%	24.9%
National Average	\$2,155	\$2,329	\$2,488	\$2,626	\$2,737	4.2%	27.0%
CS 50th Percentile	\$2,532	\$2,703	\$2,892	\$3,048	\$3,128		
Maryland Higher (lower) than CS 50th percentile	\$143	\$172	\$166	\$46	\$2		

¹Fees were reduced in 2006-07 and 2007-08

Source: 2007-08 Tuition and Fee Rates A National Comparison, Washington Higher Education Coordinating Board, March 2008

Exhibit 4
Maryland Median Household Income - All Races

<u>Calendar Year</u>	<u>Nominal Median Income</u>	<u>Annual Percent Change</u>	<u>3-year Percent Change</u>
1980	\$22,026		
1981	23,636	7.31%	
1982	24,702	4.51%	
1983	27,828	12.65%	8.11%
1984	29,708	6.76%	7.92%
1985	30,136	1.44%	6.85%
1986	30,604	1.55%	3.22%
1987	34,970	14.27%	5.59%
1988	36,552	4.52%	6.65%
1989	36,016	-1.47%	5.58%
1990	38,857	7.89%	3.58%
1991	36,952	-4.90%	0.36%
1992	37,203	0.68%	1.09%
1993	39,939	7.35%	0.92%
1994	39,198	-1.86%	1.99%
1995	41,041	4.70%	3.33%
1996	43,993	7.19%	3.28%
1997	46,685	6.12%	6.00%
1998	50,016	7.14%	6.81%
1999	52,205	4.38%	5.87%
2000	54,535	4.46%	5.32%
2001	53,530	-1.84%	2.29%
2002	56,407	5.37%	2.61%
2003	52,314	-7.26%	-1.38%
2004	57,103	9.15%	2.18%
2005	60,512	5.97%	2.37%
2006	63,668	5.22%	6.77%
2007	65,630	3.08%	4.75%

Source: U.S. Census Bureau: CPS Money income of households

Appendix I
State Funding of Higher Education – Potential Options for Consideration

OPTION	DESCRIPTION	PROS	CONS
CURRENT PRACTICE Maintain status quo	Executive provides funding in budget through annual negotiated process	<ul style="list-style-type: none"> • Maintains flexibility to be responsive to State revenue situation 	<ul style="list-style-type: none"> • Economic trends can create “roller-coaster” effect
SPENDING AFFORDABILITY Create higher education “spending affordability” group	Establish a higher education subgroup of the State Spending Affordability Committee	<ul style="list-style-type: none"> • Establishes comparable guidance for funding of higher education • Provide venue to align State institutional funding, tuition, and financial aid policies 	<ul style="list-style-type: none"> • Create expectations that revenues and priorities may not support. • Would put focus of spending affordability on only one area that the GF budget supports
MANDATED FORMULA Mandate funding level - formula	Develop formula for annual funding; components could include inflation factor, enrollment growth, “capacity” factor of institution to raise other revenues, etc..	<ul style="list-style-type: none"> • Provides level of predictability in State funding • Formula could be suspended or modified through legislation to address economic climate 	<ul style="list-style-type: none"> • Percentage of State GF budget currently dedicated to mandated programs is 67% • Restricts flexibility and responsiveness of executive and legislative budget decision-making • Would create a funding ceiling that could limit expansion/enhancement • Artificial assignment of funding unconnected with productivity or performance
MANDATE % OF GF Mandate funding level – percentage of State GF budget	Guarantee specific percentage of General Funds in legislative appropriation are dedicated to higher education; timing of when percentage determined (allowance, legislative appropriation, later reductions?)	<ul style="list-style-type: none"> • Provides specified share of State General Funds for higher education annually 	<ul style="list-style-type: none"> • Artificial assignment of funding unconnected with productivity or performance • Restricts flexibility and responsiveness of executive and legislative budget decision-making • Would create a funding ceiling that could limit expansion/enhancement • Disconnected with accountability for resources
DEDICATED REVENUE Establish dedicated funding source	Create new and/or “carve out” from existing revenue stream (tax, fees, etc.) dedicated wholly or in part to higher education funding	<ul style="list-style-type: none"> • Revenue specifically dedicated to higher education 	<ul style="list-style-type: none"> • Fund may be used to supplant GF allowance when State revenues experience downturn (e.g., purpose of HEIF creation was to supplement GF appropriation but used to offset GF reduction) • Little interest in new taxes • Current revenues insufficient to support State budget

<p>RAINY DAY FUND Create higher education “Rainy Day” fund</p>	<p>Transfer all or portion of unexpended GF funds from higher education at closing into dedicated purpose account</p>	<ul style="list-style-type: none"> • Creates a state-level “cushion” that can be used in economic down times 	<ul style="list-style-type: none"> • Difficult to protect from being used for other deficiencies and /or unmet needs • Difficult to “tag” GF dollars within CUR • May encourage institutions to spend down appropriation if unexpended funds would be transferred to collective HE fund
<p>INCENTIVE FUNDING Provide incentive funding</p>	<p>Establish performance targets (e.g., second year retention, 4-year graduation, etc.) and provide additional funding to institutions when they achieve targets</p>	<ul style="list-style-type: none"> • Aligns funding with State program priorities • Effective strategies/ practices are reinforced and encourages discontinuation of non-productive practices 	<ul style="list-style-type: none"> • May exacerbate divide between high-performing and poor-performing institutions

<p>Other options:</p>			
<p>FUND BALANCE MANDATE Dedicate portion of annual budget to be set aside in fund balance</p>	<p>Require institutions to include funding in their annual budgets for a mandated transfer of 1% into a dedicated fund balance account each year</p>	<ul style="list-style-type: none"> •Creates a financial “cushion” within each institution’s fund balance to either offset reduced State funding and/or hold tuition increases down 	<ul style="list-style-type: none"> • If additional State funds are not provided in years where transfer must be made, program reductions will be required
<p>ENDOWMENT USE Mandate use of endowment</p>	<p>Require institutions to reserve a specified portion of their endowment to accrue interest</p>	<ul style="list-style-type: none"> •Creates a financial “cushion” within each institution’s endowment to either offset reduced State funding and/or hold tuition increases down •Maximizes another revenue source to support educational programming 	<ul style="list-style-type: none"> • Wide variance in institutional ability to capture private endowment funding

Appendix II Tuition Policy Options

Tuition Options	Pros	Cons
Multi-Year Tuition Plans		
<p><i>Guaranteed Tuition/Cohorts</i></p> <p>Tuition rate is guaranteed from 2 to 5 years for a cohort group</p>	<ul style="list-style-type: none"> » Stable, predictable tuition for students and family » Provides incentive for students to complete degrees in a timely manner » Expedites throughput 	<ul style="list-style-type: none"> » Front load tuition » Fairly high tuition increases first year of implementation » Cannot predict state support or economic conditions » Unexpected costs borne by incoming class and/or institutions » Does not guarantee students will realize tuition savings
<p><i>Tuition Rate Band/Block Rate Tuition</i></p> <p>Students pay a flat tuition rate for a block of credits or based on a minimum credit load (12 or 13 hours)</p>	<ul style="list-style-type: none"> » Incentive for students to take more classes » Encourages students to graduate in a timely manner » Revenues may increase due to full-time students paying for block » Essentially all credits above the minimum are free 	<ul style="list-style-type: none"> » Rates are set to cover costs of taking course within the range » Rate structure could penalize part-time students
Annual Tuition Limits		
<p><i>Indexed Tuition Rates</i></p> <p>Limiting increases to an amount based on an inflationary index (i.e., CPI, CPI-U, or HEPI) or tied to a state's rate of growth in per capita personal income</p>	<ul style="list-style-type: none"> » Links increases to some measure of ability to pay » Institution's budget need to fit within the available revenue encouraging cost management » Allows for moderate, gradual, and predictable increases in tuition » Enables students and families to better prepare for increases 	<ul style="list-style-type: none"> » Increase in general inflation or income may not reflect the real increase in costs in higher education » State's basing increases on an index tend to ignore the index when faced with budget shortfalls forcing states to increase tuition greater than the index » Pattern of states ignoring index when faced with budget shortfalls, forcing states to increase tuition above the index rate
<p><i>Tuition Cap</i></p> <p>Places a cap on tuition increases a student will experience during 4 years</p>	<ul style="list-style-type: none"> » Allows students and families to plan for the tuition increases » Sets a maximum on annual increases but actual increases could be less 	<ul style="list-style-type: none"> » Funding shortfalls from other revenues sources, i.e., state appropriations, limit resources
<p><i>Tuition Increase Based on Cost of Education</i></p>	<ul style="list-style-type: none"> » Easy for students and families to identify what level they are contributing toward education » Students pay for what they get such as improvements and technology 	<ul style="list-style-type: none"> » Costs are imprecisely measured » Depending on method used increases could lag behind actual increases in costs

Tuition Options	Pros	Cons
Differential Tuition - Takes advantage of market economics by establishing different levels based on some criteria		
<p><i>Different Rates for Lower/Upper Division</i></p> <p>Incoming freshmen are charged different tuition and where there are differences between lower and upper division coursework</p>	<ul style="list-style-type: none"> » Lower tuition for lower division students; upper division students pay more » May encourage more students to attend institution » Encourages institutions to offer more upper division courses » Acceptance of more community college transfers » Allows tuition revenues to increase without imposing large and politically unpalatable blanket tuition hikes on everyone 	<ul style="list-style-type: none"> » Creates a wider price gap for community college transfers deterring transfer » Could be implied lower division students receive less education benefits due to larger class size
<p><i>Different Rates by Program or Major</i></p> <p>Students in high paying field or high cost program pay higher tuition</p>	<ul style="list-style-type: none"> » Low-cost program students do not subsidize high-cost program students » Allows tuition revenues to increase without imposing large and politically unpalatable blanket tuition hikes on everyone 	<ul style="list-style-type: none"> » Low income students may be discouraged from pursuing high paying programs » May be instances state has an interest in encouraging enrollment in a particular field or program while fees discourage enrollment
<p><i>Sliding Fee Scale Based on Income</i></p>	<ul style="list-style-type: none"> » Provides access to lower income students » Direct financial aid would be lower 	<ul style="list-style-type: none"> » Higher income students may attend private or out of state institutions » Difficult to arrive at a fairness scale » Higher income students would subsidize lower income students
Market Driven Approach		
<p>Allow tuition to “float”</p>	<ul style="list-style-type: none"> » Students can compare tuition with other states 	<ul style="list-style-type: none"> » Rates may be unpredictable » Rate subject to economy or policies » Institutions need to know their market and price point so they do not price themselves out of the market
And it’s counterpart		
<p><i>Higher Tuition/Higher Aid</i></p>	<ul style="list-style-type: none"> » Increase access by providing additional aid; a portion of tuition revenues would go towards financial aid awards to low-income students » Institutions can match subsidies with need ensuring aid goes to the students with the greatest financial needs. » Tuition could be raised to market rates without pricing low income student out 	<ul style="list-style-type: none"> » Lower income students may not pursue education due to “sticker shock” phenomenon » Could result in higher income students subsidizing lower income students » Success is based on maintenance of high aid, and program is funded and structured adequately » Perceptions of unfairness and inequity because many middle and upper income families receive little or no subsidy » Lack of a clear target for financial planning

Tuition Options	Pros	Cons
Other		
<p><i>Voucher System</i></p> <p>The portion of state funding for higher education goes directly to students enrolled in any state institutions</p>	<ul style="list-style-type: none"> » Can be used at any state institutions » Funding rate the same per student » Funds used to subsidize tuition, lowering total cost to student 	<ul style="list-style-type: none"> » Many students are not aware funding is available, if students do not participate, institutions do not receive funds » Only funds undergraduate education » Cumbersome for institutions to administer

Appendix III Financial Aid Options

State Need-based Aid Options	Pros	Cons	Cost
<p>Overarching Policy Statement: Align tuition and fee increases and funding for State need-based aid - overall funding level will increase as well as maximum award</p>	<ul style="list-style-type: none"> » Student awards will increase to cover additional expenses » Assures financial aid dollars and awards keeps pace with tuition and fees » Maintains affordability 	<ul style="list-style-type: none"> » Requires additional funds each year 	<p>Depends on increase in tuition and fees</p>
<p>Status Quo: Maintain programs as they currently exist</p>	<ul style="list-style-type: none"> » Students who currently meet eligibility criteria will continue to be awarded » Does not require modifications to existing programs 	<ul style="list-style-type: none"> » Keeps maximum award at current level » Maintains March 1 deadline » Awards students at higher EFC levels » Does not direct aid to low and moderate income students 	<ul style="list-style-type: none"> » Based on current awarding - \$6.3 million to fund waitlist
<p>Direct Aid to Low/Moderate Income Students: Educational Assistance Grant (EAG) award maximums equal to average tuition and fees, modify award methodology (community colleges \$3,000 four-year institutions \$7,000)</p>	<ul style="list-style-type: none"> » Increases maximum award at four-year institutions » Lowest EFC students will qualify for higher awards » Award maximums will increase with tuition and fees » Limits amount students may need to borrow 	<ul style="list-style-type: none"> » Requires significant funding 	<p>Estimated at \$45 million</p>

Extend application deadline and cap EAG expected family contribution (EFC) at \$10,000	<ul style="list-style-type: none"> » Provides assistance to more needy students » Redirects aid to low to moderate-income students » Assists community college students who apply late in the year » Once fully funded, some programs can be collapsed eliminating confusion 	<ul style="list-style-type: none"> » Students eligible under existing criteria, will no longer be eligible » Redirects aid from independent institutions to public institutions 	<ul style="list-style-type: none"> » Estimated at \$15.5 million
Set a benchmark for the level of remaining need to be covered by the EAG grant for students with the least ability to pay (\$0 -\$19,999) - benchmark 80%	<ul style="list-style-type: none"> » Directs more funding to low-income students » Increases award amounts » Limits amount students may need to borrow 	<ul style="list-style-type: none"> » Does not adjust application deadline » No changes to other income quartiles 	Estimated to cost additional \$13.8 million
Restructure Program based on payment schedule or sliding scale	<ul style="list-style-type: none"> » Simplifies awarding process » Students will know exact award amount based on EFC » Directs more funding to low-income students » Increases award amounts » Limits amount students may need to borrow 	<ul style="list-style-type: none"> » Students eligible under existing criteria, may not be eligible » Redirects aid from independent institutions to public institutions 	<ul style="list-style-type: none"> » Need more information to estimate
Expand the income limitations of the Guaranteed Access Grant (GAG) to equal 150% of the federal poverty limits	<ul style="list-style-type: none"> » Expands program eligibility » Directs more funds to lower income students 	<ul style="list-style-type: none"> » None 	<ul style="list-style-type: none"> » Approximately \$2.5 million
State Merit Aid Option Increase award amount of Distinguished Scholar Program	<ul style="list-style-type: none"> » Students may choose to go to college in Maryland 	<ul style="list-style-type: none"> » Requires additional funding 	<ul style="list-style-type: none"> » \$2.8 million to increase to \$5,000 » \$7 million to increase to \$8,000
State Transfer Program Option Increase funding for the Distinguished Scholar Community College Transfer Scholarship	<ul style="list-style-type: none"> » Provides funds to more students to continue education 	<ul style="list-style-type: none"> » Requires additional funding 	<ul style="list-style-type: none"> » Estimated cost \$1 million

<p>Institutional Financial Aid Options</p>			
<p>Encourage postsecondary institutions to tie increases in need-based financial aid to increases in tuition and fees</p>	<ul style="list-style-type: none"> » Student awards will increase to cover additional expenses » Assures financial aid dollars and awards keeps pace with tuition and fees » Maintains affordability 	<ul style="list-style-type: none"> » May redirect tuition and fee revenue from other areas to need-based aid 	
<p>Encourage postsecondary institutions to provide financial assistance to transfer students</p>	<ul style="list-style-type: none"> » Provides additional assistance to transfer students 	<ul style="list-style-type: none"> » Redirects financial aid dollars to transfer students 	<ul style="list-style-type: none"> »

**Appendix IV
Institutions Offering Guaranteed Tuition**

State	Institution	Name	Start	Legislation	Optional	Applies to	Program	↑ Tuition 1 st Year of Plan
AZ	Arizona State University	Guaranteed Tuition Payment Pilot Program	2007-2008 Academic Year	Yes – allows ASU to develop a 4-year pilot program for an optional flat rate tuition for incoming undergrads	Yes	<ul style="list-style-type: none"> All new undergrads admitted to and enrolled in a degree granting course In and out-of-state 	<ul style="list-style-type: none"> Implemented at all ASU campuses Offers a 4-year (for freshmen), 3-year (2nd year students) and 2-year (3rd year students) guarantee period Students choosing flat rate option cannot elect to pay yearly tuition until end of their guarantee period At end of fixed rate term reverts to prevailing annual tuition rate – if plan continues to be available may enter into a new agreement 	4-year – 16.9% 3-year – 12.2% 2-year – 7.6% <i>Annual rates would have to ↑, on average, 10.5% each year for tuition over a 4-year period to equal total amount paid under guarantee</i>
	Northern Arizona University – Flagstaff	Pledge Tuition Rate (pilot project)	Fall 2008	No	For current students	<ul style="list-style-type: none"> 1st time full-time freshmen and transfer students In and out-of-state 	<ul style="list-style-type: none"> Cohort groups starts in the fall semester Pledge for 4 academic years or 8 consecutive semesters (fall and spring; does not include summer) Current students are opted in for 8 semesters After 8 semesters pay the same tuition as those who enrolled the following year Withdraw 1 semester; pay the original pledge; 2 or more consecutive semesters pay same tuition as students who first enrolled semester student re-enrolls Freshmen living on campus guaranteed rent will not increase in 2nd year; meal plan rates will not increase for 2 years 	In-state – 12% Out-of-state – 14%
CO	University of Colorado – Boulder	Out-of-State Undergraduate Tuition Guarantee	Fall 2005	No	No	Out-of-state degree seeking, on-campus undergrads and transfer students	<ul style="list-style-type: none"> Students are placed in group based on first term enrolled Not effected by class standing on entry Rate guaranteed for 4 calendar years Continuous enrollment not required After 4th year student will be charged the rate of the next group <p><i>The program will be reviewed by fall 2008 to decide whether to extend the program to students enrolling in summer 2009 and later</i></p>	

State	Institution	Name	Start	Legislation	Optional	Applies to	Program	↑ Tuition 1 st Year of Plan
GA	All 35 system institutions	Fixed for Four	Fall 2006	No	No	<ul style="list-style-type: none"> • 1st time full-time students • In and out-of-state 	<ul style="list-style-type: none"> • Rates vary by institution – research, 4-year and 2-year colleges • Rate year begins with the fall semester • Rates for: 4 years (12 consecutive semesters) at regional, research and state universities; 5 years at state colleges; and 3 years at 2-year institutions • After 4th year pay rate of incoming freshmen, rate is no longer guarantee and charged new rate every year • Institutions with programs requiring more than 4 years will determine if rate period will be extended • Withdrawal due to military service – rate guarantee extended up to 2 years 	Research – 6.98% State universities – 5.00% 2-year colleges – 4.02%
IL	Western Illinois University	4-year Cost Guarantee	Summer 1999 2004 for grad students	No	No	<ul style="list-style-type: none"> • All new undergraduates and graduates • In and out-of-state 	<ul style="list-style-type: none"> • Rates remain in effect as long as student maintains continuous enrollment • After 4th year the rate will be advanced by 2 years and continue for another 2 years • Extensions granted to cover degrees requiring more than 4 years • Includes fees, room and board 	In-state undergraduate – 25% Out-of-state undergrad – (16.7%)
	University of Illinois	Guaranteed Tuition Plan	Summer 2004	Yes – applies to state institutions and requires plan to apply to in-state students	No	<ul style="list-style-type: none"> • All new undergrads enrolled in a degree program • Full and part-time • In and out-of-state • Transfers 	<ul style="list-style-type: none"> • Cohort group define by date of entry; groups start in summer • Guarantee expires preceding 4th anniversary of initial enrollment • After 4th year students are place in the immediately following cohort <i>i.e.</i>, fall 2004 moved to fall 2005 cohort • Allows for rate differential among degree programs • Students transferring to a degree program or another campus maintain cohort status but at rate of new program or campus • Colleges annually review programs to determine if majors require more than 4 years • Co-op program students entitled to a 2 semester extension • Only students withdrawing for military service are granted an extension 	Median increase across – 16% (excludes Chicago State at 45%)

State	Institution	Name	Start	Legislation	Optional	Applies to	Program	↑ Tuition 1 st Year of Plan
	Southern Illinois University	Guaranteed Tuition Stabilization Plan	Fall 2004			<ul style="list-style-type: none"> Newly enrolled undergrad students In and out-of-state 	<ul style="list-style-type: none"> Cohort groups start in the fall semester; student's group assigned based on the term first enrolled Guaranteed in effect for 4 continuous calendar years At the end of 4th year tuition no longer guaranteed – new rate same as undergrads not eligible for tuition guarantee Extension only considered due to extenuating circumstances e.g., military service and must provide evidence 	
	Northern Illinois University	Truth in Tuition	Fall 2004			<ul style="list-style-type: none"> 1st time degree seeking undergrads In state 	<ul style="list-style-type: none"> Guaranteed for 4 continuous academic years starting with initial term of enrollment After the 9th semester tuition rate equivalent to the rate paid by students who entered 2 fiscal years after date of original entry Receives 1 academic semester grace period Extension only considered due to extenuating circumstances e.g., military service and must provide evidence 	
IN	State 4-year Institutions			Yes			<ul style="list-style-type: none"> Requires institutions set tuition and fees rate for a 2-year period Once set rates cannot be adjusted unless state appropriations are reduced or withheld – rates can only increase by the amount necessary to recover lost state appropriations 	
KS	University of Kansas	4-year Tuition Compact (<i>student driven initiative</i>)	Fall 2007	No	No	<ul style="list-style-type: none"> 1st time degree seeking freshmen In and out-of-state 	<ul style="list-style-type: none"> Tuition set for 4 calendar years (includes summer) After expires students pay the going standard rate 4 programs are designed to take longer than 4 years, after 4 years students pay standard rate Campus fees not flat but plans underway to guarantee fees for 4 years Offer an optional 2-year fixed-rate campus room and board contract Extensions granted if student withdraws and re-enrolls due to extenuating circumstances; must be verified by Registrar Extension matches student's absence 	<p>Per credit hour rate: In-state – 15.9% Out-of-state – 16% <i>(Rate equals fiscal 2007 rate per credit hour time 1.06, compounded for 4 years)</i> <i>KU highlights how additional tuition revenue will be spent</i></p>

State	Institution	Name	Start	Legislation	Optional	Applies to	Program	↑ Tuition 1 st Year of Plan
MN	University of Minnesota	13 Credit Tuition Band	Fall 2007	No	No	All degree seeking undergraduates	<ul style="list-style-type: none"> • Pay a flat tuition rate based on minimum of 13 credits (fall and spring semesters only) • Saves money; every credit over 13 is free • May petition for reduced credit load 	
						Full-time MBA students	<ul style="list-style-type: none"> • MBA students guaranteed 2-year tuition rates 	
MO	Missouri State University	Choice & Predictability In Tuition Plan (CAP IT)	Fall 2006	No	Yes	<ul style="list-style-type: none"> • Degree seeking undergraduates • In-state 	<ul style="list-style-type: none"> • Comprised of 3 components: standard tuition plan; 2-year fixed tuition plan; and tuition prepayment plan • 2-year plan: pay slightly higher basic fee for current academic year but pay the same rate for the following academic year. First year 2,161 students (total enrollment 20,741) chose this plan <p><i>Note: For 2008-2009 academic year, the 2-year plan is not being offered because tuition increase over 2007-2008 was only 3.9%</i></p>	2-year plan was \$3 more than rate under standard tuition plan
	Southeast Missouri State University	Tuition Guarantee Program <i>(not a fixed-rate plan)</i>	Fall 2008 – Spring 2012	No	No	<ul style="list-style-type: none"> • Undergraduates • In-state 	<ul style="list-style-type: none"> • Caps tuition increases for 4 years • Will not raise tuition more than \$400 per year • Not a fixed rate plan that locks tuition at a higher rate than necessary for the first year 	
OK	Institutions within OK State System of Higher Education	Tuition Lock	2008-2009 academic year	Yes – sets parameters for program	Yes	<ul style="list-style-type: none"> • 1st time full-time undergraduates • In-state • Transfer students 	<ul style="list-style-type: none"> • In effect for 4 consecutive academic years at comprehensive and regional institutions; 2 academic years at 2-year institutions • Expires after 4 years unless enrolled in a program officially requiring more time to complete • Extensions granted if student withdraws for military or national defense emergencies <p><i>Institutions must provide annual tuition and percent increase the nonguaranteed rate would have to ↑ to equal or exceed the guaranteed rate for the succeeding 4 academic years</i></p>	Guaranteed rate cannot exceed 115% of nonguaranteed rate

State	Institution	Name	Start	Legislation	Optional	Applies to	Program	↑ Tuition 1 st Year of Plan
OR	Western Oregon State	Western Tuition Promise	2007-2008 academic year	No	For returning students	<ul style="list-style-type: none"> All new full-time undergrads In-state and Western Undergraduate Exchange Program students 	<ul style="list-style-type: none"> Groups start in fall After 4 calendar years tuition rate increases each year to the level paid by students currently in 4th year of their tuition group May request extension; will be reviewed by a committee comprised of students, staff and faculty Withdraws for military service – 4 year calendar frozen until deployment ends plus 12 months 	One-time increase – 16% <i>Subsequent annual increases projected to maintain overall campus affordability and be consistent with current pricing patterns</i>
TX	University of Texas - Austin	Flat Rate Tuition <i>(tuition rate band)</i>	2001	Yes for pilot (before tuition deregulation)		<ul style="list-style-type: none"> Full-time students taking 12 or more credit hours In-state 	<ul style="list-style-type: none"> Granted authority to conduct a pilot at 2 colleges; expanded to all students in 2005 Students taking 12 or more semester credit hours are charged a flat tuition and fee rate for their college 	
	University of Texas – Dallas	Guaranteed Tuition Plan	Fall 2007	No	For current students	<ul style="list-style-type: none"> Full-time students taking 15 or more credit hours In-state 	<ul style="list-style-type: none"> Includes mandatory fees Students enrolled prior to fall 2007 assessed under Continuing Student Plan 	Tuition – 13.0%
	University of Texas – El Paso	Guaranteed Tuition Plan	Fall 2006	No	Yes	<ul style="list-style-type: none"> 1st time full-time freshmen In-state 	<ul style="list-style-type: none"> In effect for 4 consecutive academic years Continuing eligibility requirements: successfully completing 30 semester credit hours within each academic year and maintaining at least a 2.0 grade point average Interruption of attendance may result in disqualification from program If lose eligibility students pay current tuition and fees for regular enrollment for that term 	
	Texas A&M	Flat Rate Tuition <i>(tuition rate band)</i>	Fall 2005	No		<ul style="list-style-type: none"> Full-time undergrads In & out-of-state 	<ul style="list-style-type: none"> Students taking 12 or more semester credit hours charged a flat rate for tuition and mandatory fees base on 15 semester credit hours 	Tuition – 25%

State	Institution	Name	Start	Legislation	Optional	Applies to	Program	↑ Tuition 1 st Year of Plan
WA	University of Washington	Cohort or Guaranteed Tuition	Fall 2005	No	No	MBA students only	<ul style="list-style-type: none"> • Testing guaranteed tuition model • UW could expand the cohort tuition model to other 2-year graduate programs but will be several years before officials determine how it is working for the MBA program <p><i>Note: Currently, the legislature controls undergraduate tuition increases for in-state students</i></p>	

Defunct Programs

State	Institution	Offered	Name	Program	Reasons Program Ended
MI	Michigan State University	1994-2001	MSU Tuition Guarantee	Promised tuition increases at or below the rate of inflation	Contingent upon state providing inflation-rate funding increases to MSU
	Central Michigan University	2005-2008	CMU Promise	<ul style="list-style-type: none"> • Locked in tuition rates for 5 years • CMU made up for the frozen rates at the front end. In 2007 raised locked in rate 21% for new students 	Decreased state appropriations
MN	University of Minnesota	Fall 2003-2005		<ul style="list-style-type: none"> • Optional guaranteed tuition program – pilot program • Student led initiative • Offered for 5 years for up to 250 freshmen enrolled on the Twin Cities campus 	Lack of interest

Notes:

SUNY – proposed program in 2005 similar to Illinois but condition the locked-in tuition rate on a guaranteed level of state aid. Increase in tuition level calculated by multiplying the previous year tuition by the Higher Education Price Index (HEPI). Failed to pass by the legislature.

Iowa – Republican Senators introduced Tuition Guarantee Bill past two sessions. Failed to pass.

Florida – In 2005 the Board of Governors proposed requiring institutions to provide a guaranteed tuition rate. The proposal did not get the support of institutions and did not pass the legislature.