



Stronger Financial Incentives Could Encourage Students to Graduate With Fewer Excess Hours

at a glance

Student enrollment in Florida's higher education institutions is projected to grow faster than higher education's share of state revenues. The Legislature may wish to consider providing financial incentives to encourage students to graduate with fewer excess hours and thereby decrease costs. The financial incentives, which other states have used and could be implemented in Florida, include

- charging the full cost for credit hours in excess of 115% of graduation requirements, which could save \$29 million annually;
- providing tuition rebates to students who graduate with minimal excess hours, which could serve as an incentive for timely graduation and could save \$3.5 million annually; and/or
- offering "locked-in" tuition, under which students who do not graduate within four years would pay the higher tuition rates charged to new students, which may encourage students to graduate in four years.

Scope

This project was conducted in response to a legislative request to identify financial incentives the Legislature could mandate to help to decrease state higher education funding costs by encouraging students to earn degrees with fewer excess hours. This report does not address administrative strategies, such as improved

counseling, that universities could implement to reduce excess hours.¹ A companion report examines alternatives to the state's current higher education tuition and funding practices.

Background

The Legislature provides funding and policy direction for state postsecondary institutions. In Fiscal Year 2003-04, the Legislature appropriated approximately \$2.5 billion in general revenue and lottery funds to support Florida's higher education institutions, including the state's 28 community colleges and 11 universities. To ensure that higher education is affordable, the Legislature historically has mandated relatively low tuition and general fees. Resident undergraduates at Florida institutions pay less in tuition and general fees than resident undergraduates at peer institutions.² However, based on revenue and student enrollment projections, the state may not be able to continue subsidizing higher education at current rates without increasing the proportion of funding to higher education.

¹ See OPPAGA report, Justification Review: *State University System—Florida Department of Education*, Report No. 01-28, May 2001, which discusses several administrative strategies to reduce excess hours.

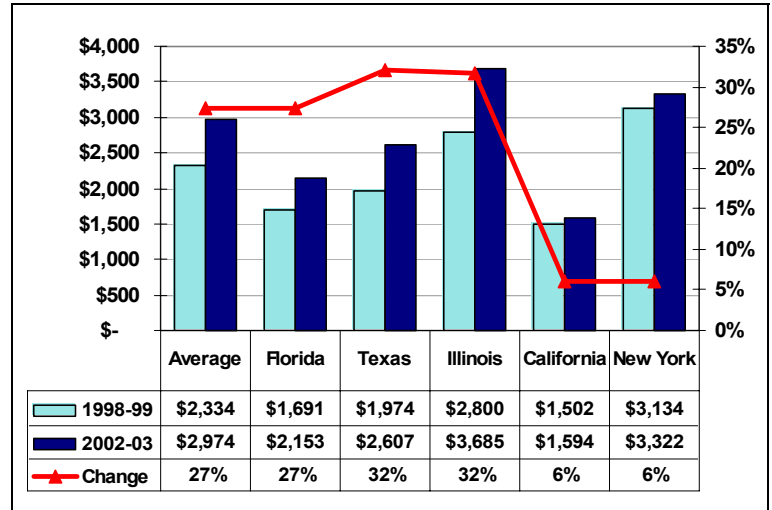
² See OPPAGA's companion report, *Florida Universities' Tuition and Fees Slightly Below Peers, But All Costs Consume a Higher Percentage of Family Median Income*, Report No. 04-12, February 2004.

Tuition has been increasing in Florida and other states; however, it is still well below the national average. Over the past several years, Florida's university resident undergraduate tuition and fees have increased at rates similar to the national average. Florida's 27% increase in tuition and fees from Fiscal Years 1998-99 to 2002-03 equaled the national average increase (see Exhibit 1). Based on a 24-credit-hour course load per year, the average undergraduate student attending a Florida public university paid \$2,153 in tuition and fees in 2002-03, the most recent year for which data is available.

Tuition and fees for resident students enrolled in Florida's community colleges are lower than that charged to university students, and they have increased at a slower rate than the national average over the past three years (see Exhibit 2). Florida's 20% increase in tuition and fees from 1998-99 to 2002-03 was below the national average of 24%. The average Florida community college student paid \$1,261 in tuition and fees in 2002-03, \$892 less than their counterparts attending Florida public universities.

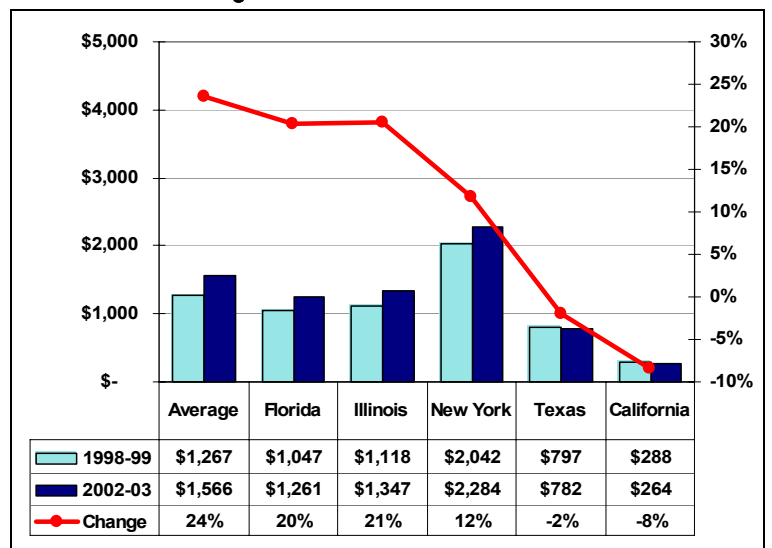
Student enrollment is growing. In 2002-03, 388,830 full-time equivalent students were enrolled in Florida's higher education programs. Over the next five years, student enrollment is projected to grow at a rate of 5% annually, resulting in a 26% projected increase from 2002-03 to 2007-08 (see Exhibit 3). The majority of these students are expected to enroll in the community college system.

Exhibit 1
Florida's Five-Year Increase in University Resident Undergraduate Tuition and General Fees Matched National Average Between 1998-99 and 2002-03



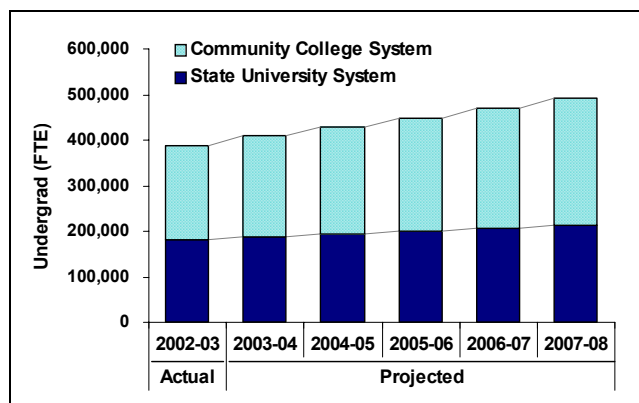
Note: Tuition and fees are based on 24 credits per year, which is the average course load taken by students during the fall and spring semesters.
Source: OPPAGA analysis.

Exhibit 2
Florida's Five-Year Increase in Community College Resident Undergraduate Tuition and General Fees Was Slightly Below the National Average Between 1998-99 and 2002-03



Note: Tuition and fees are based on 24 credits per year, which is the average course load taken by students during the fall and spring semesters.
Source: OPPAGA analysis using data from Washington Higher Education Coordinating Board.

Exhibit 3
Florida's Higher Education Student Population
Will Grow 26% Between 2002-03 and 2007-08



Note: FTE is calculated at 30 credit hours per year for both state university and community college systems.

Source: OPPAGA analysis.

State revenue will not grow as fast as student enrollment. If the state allocates the same share of general revenue to higher education as it did in 2003, the growth in state funds for higher education will not keep pace with student enrollment growth. The Legislature appropriated approximately \$2.5 billion in general revenue and lottery funds to the state's community colleges and state universities for Fiscal Year 2003-04.³ Although state revenues are projected to increase over the next five years, the revenues will not be sufficient to provide funding for student enrollment growth. Exhibit 4 illustrates that the projected funding per full-time equivalent (FTE) student would decrease from \$6,488.65 in 2004-05 to \$6,216.06 in 2007-08.

³ This excludes funding for the Institute of Food and Agricultural Sciences (IFAS) at University of Florida, Florida State Medical School, University of Florida Health Center and University of South Florida Medical Center. However, this figure includes items that are not directly related to enrollment growth.

Exhibit 4
Projected Annual Increases in Higher Education Funding
Are Lower Than College Enrollment Increases, Which
Would Result in Lower Funding Per Student

Year	Annual Growth in Funding ¹	Annual Growth in Students	Funding Per FTE
2004-05	3%	5%	\$ 6,488.65
2005-06	3%	5%	6,382.29
2006-07	3%	5%	6,284.82
2007-08	4%	5%	6,216.06

¹ The annual growth of funding includes general revenue and lottery funds.

Note: This exhibit assumes that higher education will receive the same proportion of general revenue as it does currently. Funding per FTE includes both university and community college students. FTE is calculated at 30 credit hours per year for both state university and community college systems.

Source: OPPAGA analysis.

Most students graduate with attempted credit hours in excess of graduation requirements.

During 2002-03, students attempted 719,660 credits in excess of graduation requirements. While most students (78%) accumulated some excess hours, most excess hours were earned by a relatively small number of students—20% of the students accounted for over half (57%) of all credit hours over the minimum graduation requirements. The large amount of excess hours students accumulate drives up the cost of higher education.⁴ The 719,660 excess hours attempted by students in 2002-03 cost the state \$62 million.

There are several factors that contribute to students taking courses they do not need for graduation.

- Students who change their majors frequently take excess hours because some classes taken to pursue their first major do not count toward their eventual degree.
- Students sometimes want to take courses they do not need for graduation.
- Students may withdraw from or fail courses they enroll in, and may retake such classes.

⁴ Our analysis is limited to students graduating from the State University System only. It includes excess hours that students bring from community colleges.

Florida has existing incentives built in to Bright Futures and Florida Prepaid programs to promote efficiency by encouraging students to graduate with fewer excess hours. For instance, the Bright Futures Scholarship covers 75% to 100% of the cost of tuition for up to 110% of the credit hours required for graduation. The Florida Prepaid program pays tuition costs for 120 credit hours, generally the credit hour requirement associated with most baccalaureate degree programs. Students must pay tuition for excess hours earned over these limits, but they do not pay the total cost of these courses, as tuition covers only a portion of the total costs of providing college instruction.

Options

To reduce the costs of excess hours, the Legislature may wish to consider financial options that other states have used to encourage students to reduce the number of courses they take.⁵ These options are to

- charge higher tuition for excess hours;
- provide tuition rebates for students who graduate with few excess hours; and
- offer “locked-in” tuition to encourage students to graduate in four years.

Notwithstanding the merits of the above options, their effect on the course-taking patterns of students enrolled in Florida’s postsecondary institutions is uncertain.

Option 1 - Charge students a higher cost per credit hour for excess hours

Other states charge students higher tuition for excess credit hours. Both North Carolina and Texas have established thresholds beyond which students are required to pay higher tuition. In 1994, North Carolina established a policy of charging students 25% more for hours in excess of 110% of the amount needed for a degree. Under this policy, excess credit hours include all regular session degree courses excluding acceleration hours that the student completed, repeated, failed or dropped. According to a

preliminary report, after adopting this policy, the average number of credit hours attempted and the average number of hours earned by North Carolina graduates decreased. Similarly, Texas charges higher tuition when a student takes 45 hours or more over the number required to graduate. The excess hour tuition may be increased up to the non-resident tuition rate.

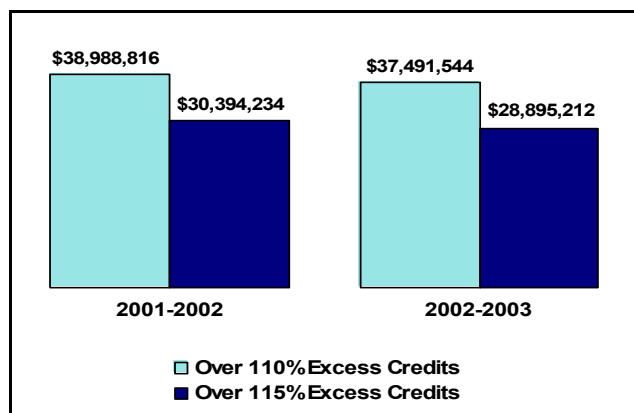
If Florida were to implement a policy similar to those implemented in North Carolina and Texas, the Legislature would establish a threshold beyond which students would be charged a higher tuition rate. To recoup the total cost of excess hours the Legislature could set the excess hours tuition rate at the full cost of the credit hours. We examined the effects of setting thresholds for higher tuition at

- 115% over the minimum graduation requirements and
- 110% over the minimum graduation requirements.

Setting a threshold of 115% could save Florida \$29 million annually. If the Legislature required students who take more than 115% of the credit hours needed for graduation to pay a higher tuition cost for these excess hours, typical students (those whose programs require 120 credit hours) could take up to 18 credit hours (which represents one and a half additional semesters given the current average student course load of 12 credit hours per semester) more than they need to graduate before being required to pay higher tuition rates. The Fiscal Year 2002-03 graduating class accumulated 337,837 credit hours in excess of 115% of their degree requirements. A small proportion (20%) of these students earned 83% of these excess credit hours. If students were required to pay the full costs of the excess credit hours, the state could save approximately \$29 million under a 115% threshold (see Exhibit 5). Appendix A shows the excess hours by university.

⁵ This report does not address administrative and programmatic strategies to reduce excess hours.

**Exhibit 5
Excess Hours Earned by Recent Graduates
Increased State Costs**



Source: OPPAGA analysis of SUS Hours to Degree file.

Setting a threshold of 110% could save Florida \$37 million annually. Alternately, the Legislature could set the threshold at 110% the credit hours needed for graduation. Establishing the 110% threshold would enable typical students to take an additional 12 credit hours (which represents one additional semester given the current average student course load of 12 credit hours per semester) over graduation requirements before being charged higher rates. The 2002-03 graduating class accumulated 438,344 in credit hours over 110% of their degree requirements, with 20% taking about 74% of these credit hours. If students were required to pay the full cost of the excess credit hours, the state could save approximately \$37 million annually under a 110% threshold. See Appendix A for the excess hours by university.

Option 2 – Provide tuition rebates for students who graduate on time

A second alternative would be to provide cash rebates similar to those provided by Texas to encourage students to graduate with limited excess hours. Texas offers tuition rebates of up to \$1,000 to students who graduate with no more than three attempted hours in excess of the minimum required for earning a degree. The rebate is pro-rated on the basis of the amount of tuition students pay.

If Florida were to implement a similar program to that of Texas, to ensure that tuition revenues do not decline, it could increase tuition rates to

recoup the projected cost of rebates. Offering cash rebates would give students a financial incentive to plan their coursework and graduate with few excess classes. State data indicates that 12% of the students in the Fiscal Year 2002-03 graduating class at Florida’s universities graduated with no more than three credit hours over the required minimum. Currently about 24% of all students graduate with more than three but less than 110% of the credit hours need to graduate. If a tuition rebate program motivated these students to graduate with no more than three excess credit hours, the state could save \$3.5 million.

Option 3 – Offer “locked-in” tuition to students who graduate on time

A third alternative would be to lock in tuition rates to encourage students to graduate within a specified number of years. Under a locked-in tuition policy, the state would establish a single tuition rate that students entering college would pay over the next four years. To make this option revenue-neutral, the state would need to identify the total amount students would pay for tuition over their four-year college tenure, divide that amount into four equal pieces, and guarantee students that they will pay the same tuition rate each year. If students do not complete their degrees within four years, they would be charged the higher tuition rates charged to that year’s newly entering students.

Locked-in tuition has been used with some success at Western Illinois University (WIU) since 1999. Students at this university pay a flat rate for tuition, fees, room and board which is held constant for the next four years. For instance, tuition was locked in at \$93.75 per credit hour for WIU students who enrolled in Fall 2000 (see Exhibit 6). If WIU students do not graduate in four years, they must pay the same rate as newly entering students, which with inflation is substantially higher. For example, these students would pay \$151.25 per credit hour if they did not graduate in four years. Illinois will implement a locked-in tuition policy statewide beginning in 2004-05. The statewide locked-in tuition policy will not include fees or room and board expenses.

Exhibit 6
Example of Locked-in Tuition Annual Costs for a Student Earning a Degree that Requires 120 Credits

Year of Enrollment	Tuition per Credit Hour	Cost to	Cost to
		Students Taking 12 Credits per Semester/24 Credits per Year	Students Taking 15 Credits per Semester/30 Credits per Year
2000-01	\$ 93.75	\$ 2,250.00	\$ 2,812.50
2001-02	93.75	2,250.00	2,812.50
2002-03	93.75	2,250.00	2,812.50
2003-04	93.75	2,250.00	2,812.50
2004-05	151.25	3,630.00	---
Total Cost of Tuition		\$12,630.00	\$11,250.00

Source: Western Illinois University. Tuition rates for in-state students.

Locking in tuition may provide incentives to students to meet their degree requirements faster. Between Fiscal Years 1995-96 and 2003-04, tuition has increased between 5% and 8.5% in Florida; tuition increases have been approximately 7% in recent years. Under a locked-in tuition policy, resident tuition would be held constant for four years for each entering cohort of students in the state university system. Assuming an annual 6% increase in tuition, if tuition were locked in at \$69.35 per credit for 120 credit hours over a period of four years, students would pay \$8,322 in tuition.⁶ Students would

⁶ Setting the per-credit-hour charge at \$69.35 for 120 credits over a period of four years at a 6% annual increase in tuition ensures that this locked-in rate will not change the tuition revenues collected by the Florida universities at the existing per-credit-hour charge based on incremental tuition increases each year.

Exhibit 7
Effects of Policy Options on Bright Futures and Prepaid Programs

Policy Option	Prepaid College Program ¹	Bright Futures
Higher Tuition for Excess Hours	No effect. Prepaid tuition contracts are for 120 credits.	Minor positive effect. There may be cost savings if the policy motivates some students who would otherwise have taken at least 110% of the required program hours to finish with fewer than 110%.
Tuition Rebate	No effect. Awarding tuition rebates will not affect the Prepaid program.	Minor positive effect. There may be cost savings if the policy motivates some students to reduce their excess credit hours to no more than three beyond graduation requirements.
Locked-In Tuition	No effect. For new contracts, the program could adjust prices to accommodate the new policy.	Positive effect. This would reduce Bright Futures spending because the program pays a percentage of tuition. However, Bright Futures provides at least some incentive for students not to change their behavior in response to this policy.

¹ Effects on the Prepaid College Program refer to the impacts on the program's actuarial balance.

Source: OPPAGA analysis.

have a greater financial incentive to graduate within four years because they would be charged a higher rate (\$87.55 per credit hour) for the fifth year, the same rate that entering students would be charged.

Locked-in tuition may result in part-time students paying more in tuition than full-time students. A disadvantage of locked-in tuition is that it could adversely affect part time students. Locked-in tuition would work similarly for both full-time and part-time students. Part-time students would be able to receive the locked-in tuition rate for four years. However, after the first four years these students would be charged the locked-in tuition rate for the next succeeding cohort. Because the new locked-in tuition is higher, part time students will pay more than they would have paid unless they graduate with their full-time cohorts.

Potential effects of options on the Bright Futures and Prepaid College Programs are generally small

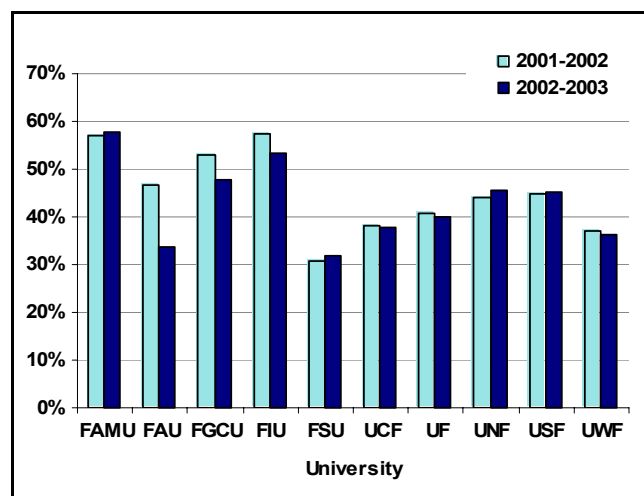
The fiscal impacts of three options discussed above on the Florida Prepaid College and Bright Futures Scholarship programs are uncertain and dependent on a variety of factors. However, for the most part, these tuition policy options likely would not significantly affect the financial soundness of the Prepaid College Program or substantially affect Bright Futures expenditures. Exhibit 7 summarizes the likely effects of each option on the two programs.

Appendix A

Number of Excess Hours Varies by University

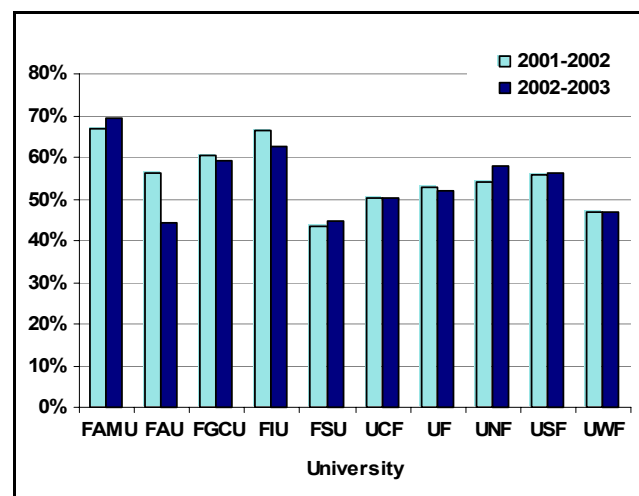
The percentage of graduates with hours in excess of 115% of graduation requirements varies considerably by university. Table A-1 shows that the percentage of graduates who earned hours in excess of 115% of those required for graduation in Fiscal Year 2001-02, ranged from 57% at Florida A & M University and Florida International University to 31% at Florida State University. In comparison to students at other universities, more graduates from Florida A&M University, Florida Gulf Coast University, and Florida International University graduated with hours in excess of 115% of those required for graduation. Institutional percentages remained relatively similar for graduates in 2002-03, with the exception of Florida Atlantic University, which experienced a 13% decline. Similar to the findings for the 115% threshold, the percentage of graduates with hours in excess of 110% of the graduation requirement also varies considerably by institution (see Table A-2).

Table A-1
SUS Students Over the 115% Standard



Source: OPPAGA analysis of SUS Hours to Degree file.

Table A-2
SUS Students Over the 110% Standard



Source: OPPAGA analysis of SUS Hours to Degree file.

The Florida Legislature

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