FLORIDA STATE UNIVERSITY

THE FLORIDA BRIGHT FUTURES PROGRAM:
An Analysis of Cost Saving Policy Options

AN ACTION REPORT SUBMITTED TO
THE FACULTY OF THE COLLEGE OF SOCIAL SCIEN CES
IN CANDIDACY FOR THE DEGREE OF
MASTER OF PUBLIC ADMINISTRATION

REUBIN O’D. ASKEW SCHOOL
OF PUBLIC ADMINISTRATION AND POLICY

BY

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TALLAHASSEE, FLORIDA

DECEMBER 2004
March 4, 2006

The Honorable Evelyn Lynn, Chair
Senate Education Committee
404 South Monroe Street
415 Knott Building
Tallahassee, FL 32399-1100

Dear Senator Lynn:

I am pleased to submit, for your review and consideration, Florida Bright Futures: An Analysis of Cost Saving Policy Options. The report is the product of extensive research and policy analysis of broad-based merit aid programs. In consideration of the concern over the increasing costs of the Bright Futures Scholarship Program, the report was created to provide an analysis of the program’s structure and a policy recommendation.

As the program is currently structured, the cost of running the program will outpace the revenue growth in the scholarship’s dedicated funding source, the Lottery, within the next 10 to 15 years. This report analyzes three options to reduce costs. The options are means testing, higher eligibility requirements, and flat awards. Each policy option was evaluated based on its political acceptability, its ability to save money, and its ability to create parity between payer and beneficiary.

My recommendation is that Florida implement a flat award amount. The award should be at a level that will persuade students to remain in state to attend college and provide an incentive for high academic performance. A number of states with successful, broad-based merit programs currently offer fixed scholarship awards. With the implementation of a fixed award, Florida can continue its commitment of tuition assistance to the parents and students of this state for many years to come.

Sincerely,

Q. Natoya Alee
MPA, Candidate
FLAT AWARD AMOUNT COULD SAVE BRIGHT FUTURES MILLIONS

Tallahassee- A study of cost saving changes to the Florida Bright Futures program reports the state could save millions by giving students a flat award.

Currently Bright Futures recipients earn a scholarship covering 75 or 100 percent of tuition and fees. The proposed flat award scholarship would be for a specific dollar amount as opposed to a percentage of tuition.

Florida State graduate student Natoya Alee compared Bright Futures to similar programs in 11 other states. Alee says rising tuition rates threaten the future of merit scholarships and steps must be taken to preserve the programs for future generations.

“Tuition costs are on the rise and are very likely to continue. Repeated tuition hikes put a huge strain on merit programs that award percentages of tuition instead of a specific amount. When tuition goes up so does the cost of the program to the state,” said Alee.

If Bright Futures awarded flat scholarship of $2900 to its Academic Scholars and $1700 to its Medallion Scholars, the cost of funding new recipients would have been reduced by $4 million last year.

According to the report, state lawmakers should set the flat award level high enough so that the scholarships will continue to cover a major portion of college tuition while encouraging students to work hard in the classroom to earn the scholarship.

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# TABLE OF CONTENTS

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>LETTER OF TRANMITTAL</td>
<td>i</td>
</tr>
<tr>
<td>PRESS RELEASE</td>
<td>ii</td>
</tr>
<tr>
<td>TABLE OF CONTENTS</td>
<td>iii</td>
</tr>
<tr>
<td>EXECUTIVE SUMMARY</td>
<td>iv</td>
</tr>
<tr>
<td>I. PROBLEM</td>
<td>1</td>
</tr>
<tr>
<td>II. BACKGROUND AND LITERATURE REVIEW</td>
<td>3</td>
</tr>
<tr>
<td>➢ Background</td>
<td>3</td>
</tr>
<tr>
<td>➢ Literature Review</td>
<td>6</td>
</tr>
<tr>
<td>III. METHODOLOGY AND EVALUATIVE CRITERIA</td>
<td>19</td>
</tr>
<tr>
<td>➢ Methodology</td>
<td>19</td>
</tr>
<tr>
<td>➢ Evaluative Criteria</td>
<td>22</td>
</tr>
<tr>
<td>IV. MANAGEMENT POLICY OPTIONS</td>
<td>24</td>
</tr>
<tr>
<td>➢ Means Testing</td>
<td>26</td>
</tr>
<tr>
<td>➢ Higher Eligibility Requirements</td>
<td>29</td>
</tr>
<tr>
<td>➢ Fixed Award</td>
<td>34</td>
</tr>
<tr>
<td>V. RECOMMENDATION/CONCLUSION</td>
<td>38</td>
</tr>
<tr>
<td>VI. WORKS CITED</td>
<td>40</td>
</tr>
</tbody>
</table>
EXECUTIVE SUMMARY

PROBLEM: Bright Futures Program Costs

The current structure of the Florida Bright Futures Program makes it highly susceptible to rising tuition rates, institutional charges and fees, and population growth. Each of these factors contribute to the program’s ballooning costs. The purpose of this action report is to provide the Florida Legislature with policy alternatives that will facilitate cost savings in the Bright Futures program while sustaining the long-term commitment of merit based financial aid to Florida students.

BOOM AND BUST

During the 1990s, 23 states implemented or modified their merit aid programs to accommodate a larger recipient pool and increased scholarship awards. This revolution in merit aid occurred when state economies were robust. Now, economic downturn threatens the success of the popular programs.

State budget shortfalls in Arkansas left the state’s merit program unfunded for one year. Merit aid awards in Michigan and Missouri were cut in 2003 because of decreased revenues. Florida could soon find itself in a similar quandary if action is not taken to curb program costs.

METHODS

Information for this report was collected using three methods. First, library databases, program websites, and government reports were used to obtain background into the history and problems within the Bright Futures Program. Second a comparative analysis of Florida and 11 states with merit aid programs was conducted. Third, merit aid program administrators, managers, and directors were interviewed.

MANAGEMENT POLICY OPTIONS

There are at least three policy options that could be used to control costs in the Bright Futures Program.

- **Means Testing**: considering a student’s financial well-being to determine his eligibility for the Bright Futures Program.
- **Higher Eligibility Requirements**: increasing the standardized test requirements of the Bright Futures Medallion award from a score of 970 on the SAT to 1010 or 1050.
- **Establish a fixed award amount for each award level**: the state would no longer link Bright Futures awards to a percentage of actual tuition and fees but would provide a fixed amount (e.g. $2900.00).

Each option was evaluated against three criteria: cost, equity, and political acceptability.
RECOMMENDATION

Establishing a flat award amount is the management option that would allow legislators to address the fiscal challenges associated with the Bright Futures Program before a serious financial threat to the program occurs. This option allows lawmakers to do what is best for the state financially—curb program costs while keeping their constituents happy by implementing a cost saving mechanism they can swallow. The selection of option three provides a proactive approach to ensuring the viability of Bright Futures for years to come.
I. Problem

The Florida Bright Futures Scholarship Program is the state’s largest funded financial aid expenditure. The program, which is funded entirely from the Lottery supported Educational Enhancement Trust Fund, has since its inception seven years ago tripled in cost and scholarship recipients. It has increased from $69.9 million and 40,000 recipients in FY 1997-98 to $232 million and 117,903 recipients in FY 2003-04 (‘‘Historical Funding,’’ 2003). The structure of the program makes such large increases inevitable. The current structure of the Florida Bright Futures Program makes it highly susceptible to rising tuition rates, institutional charges and fees, and population growth. The growing number of students who will renew their scholarship year after year also creates financing problems for the Bright Futures program. Each year the number of students who meet the criteria to renew the scholarship increases, resulting in approximately a 75 percent renewal rate among recipients. These factors, which initially made Bright Futures popular among voters: full tuition payment, easy accessibility and renewal today threatens its long-term viability.

If Bright Futures is to continue its mission of rewarding academic achievement with college financial assistance, modifications to reduce and control costs for the long term must be a priority. The purpose of this action report is to provide the Florida Legislature with policy alternatives that will facilitate cost savings in the Bright Futures program while sustaining the long-term commitment of merit based financial aid to Florida students. The paper will evaluate lottery revenue projections in comparison to scholarship recipient projections for the next 10 years. It will also analyze the merit
programs in other states to discern what actions other states with similar programs have undertaken to reign in costs.
II. Background and Literature Review

In 1996 the Florida Legislature created, but failed to fund, the Florida Postsecondary Tuition Program. This program was commonly referred to as the Lottery Scholarship and was a direct response to growing concern among voters surrounding the use of lottery funds for education enhancements. Ten years earlier, voters approved an amendment to the Florida constitution to allow state operated lotteries. The implementing language passed by state lawmakers to institute this lottery dictated that net proceeds from the games would be used “to support improvements in public education and that such proceeds not be used as a substitute for existing resources for public education” (s. 24.101(2)(a) F.S.). After a decade with a state lottery, voters were not convinced that proceeds from the lottery were meeting the standards set in the implementing language.

During the 1997 legislative session Legislators created and funded the Florida Bright Futures Scholarship program using a neighboring state’s program, the Georgia HOPE Scholarship, as a model with minor modifications to the central theme established by HOPE. Florida lawmakers believed the Bright Futures program would promote higher academic achievement among high school students by requiring a specified GPA and SAT score in order to receive tuition assistance through the program (Senator Ken Pruitt, personal communication, June 22, 2004). Georgia’s program simply required a B average for full tuition assistance. Florida lawmakers also believed creating a broad based merit scholarship would put an end to voter discontent and disbelief regarding the use of lottery proceeds for education. A new program with such obvious results and beneficiaries would go a long way toward restoring voter confidence in the lottery and the way lottery money was used.
Bright Futures was not the first merit program to be funded by the state. Prior to its creation the state had two popular merit-scholarship programs, one for academic students and one for vocational students. Both were funded from general revenue. The two scholarships had very different requirements for eligibility but they both had a fixed award amount. The Florida Academic Scholars Program awarded an annual $2500 scholarship to any Florida high school graduate who performed at the highest level of academic achievement. Students receiving $2500 from the state for tuition assistance had to meet one of five eligibility criteria:

1. Earn a 3.5 GPA and a 1270 SAT score; no special curriculum required
2. Earn a 3.0 in college preparatory curriculum, 1180 on SAT, and perform at least 75 hours of community service
3. Be a home education student and earn a 1270 SAT score
4. Earn an International Baccalaureate Diploma
5. Be a finalist or a winner in the National Merit Scholarship program

High school students with a vocational focus were eligible for $2,000 in annual assistance from the state for higher education. The Florida Vocational Gold Seal Endorsement Program required a student to have an overall 3.0 GPA and a 3.5 GPA in a minimum of three vocational courses. The Vocational Gold Seal Program required no set SAT score and, because of its vocational emphasis required no college preparatory course work.

Prior to the creation of Georgia’s HOPE Scholarship in 1993, Florida’s two scholarships for academic and vocational students were ranked first in the nation for merit aid (Heller & Rasmussen, 2002). To create Florida Bright Futures, these two previously successful scholarship programs were reworked by lowering requirements and...
increasing award amounts. Another scholarship level was added, the Florida Merit Scholarship.

The Bright Futures Scholarship program restructured the two previous academic achievement awards – the Florida Undergraduate Scholars (now the Florida Academic Scholars award) and the Gold Seal Vocational Endorsement Scholarship (now the Florida Gold Seal Vocational Scholars award). The Florida Merit Scholars award was added as a provision of Section 240.40201 of Florida Statutes.

The Florida Academic Scholars award amounts and criteria include:

- 100% of tuition and required fees
- $600 for college-related expenses per academic year
- 3.5 GPA on 15 college preparatory high school credits
- 1270 SAT or 28 ACT
- 3.0 GPA on all postsecondary work attempted for renewal

The Florida Merit Scholars award amounts and criteria include:

- 75% of tuition and required fees
- 3.0 GPA on 15 college preparatory high school credits
- 970 SAT or 28 ACT
- 2.75 GPA on all postsecondary work for renewal
The Florida Gold Seal Vocational award amounts criteria include:

- 75% of tuition and required fees
- 3.0 GPA on 15 credits required for a standard high school diploma (excluding electives)
- 3.5 or better un-weighted GPA in a minimum of 3 credits from the same vocational program, and 3 minimum scores on each subsection of the SAT, ACT or Florida College Entry-Level Placement Test (CPT)
- 2.75 GPA on all postsecondary work attempted for renewal¹

Literature Review

Literature examining state funded merit based aid focuses primarily on the social, academic, political, and fiscal effects of broad based, tuition driven programs. The social aspect of such programs has been widely researched and written about over the ten-year span in which the popularity of merit programs has soared. Researchers studying social ramifications have found that broad state financed merit programs divert aid from the needy in order to reward the affluent. This conclusion is drawn by analyzing the changes in funding for need based and non-needs based aid. Though need based funding has increased over the years, the rate of growth lags far behind that of merit based funding. In Florida, for example, approximately $230 million was spent on merit aid in FY 2003-04 compared to $20 million in need based aid² (SB 2500, 2003). Georgia doles out about $44 per capita in merit aid compared to 19 cents per capita in need based aid (Arnone, 2003). Also in West Virginia funding for the state’s merit scholarships increased $8 million compared to a $4 million increase for need based aid (Cauchon, 2004). The trends

¹ A Gold Seal Scholar who meets this GPA requirement may transfer to the Florida Merit Scholarship award at any renewal period
² Fund appropriated from the Education Enhancement Trust Fund (Lottery Fund)
in aid spending in Florida, Georgia, and West Virginia are indicative of the funding in other states with similar large scaled merit programs. The Harvard Civil Rights Project (2002) on the social consequences of merit aid found that in the fiscal year 2000-01 a total of $863 million in merit aid was awarded by the 12 states that offer broad-based aid with no household income cap compared to a combined $308 million in need-based aid in the same 12 states (Marin, 2002). The pattern continues in states with smaller merit programs although the differences in funding levels are less dramatic. According to Penn State researcher Donald Heller, in 1990 only 10 percent of state funded financial aid was awarded without regard to financial status, today one-fourth of state aid is available to all students—even those from the wealthiest families.

The focus on need based funding versus merit funding is significant because research by Heller and Rasmussen (2002), on the college choice process, gives some insight into the role financial aid plays in the decision to attend college for high and low-income students.

Financial aid has been shown to be effective at increasing the probability that a student from a lower-income family will enroll in college, and much less effective for students from higher-income families because the decision to attend college is constrained by price. Thus, price theory in microeconomics helps explain the role of financial aid in college access and choice. The aid acts to lower the net price paid by the student, increasing the likelihood that she will be able and willing to invest in postsecondary education. African American, Hispanic, and low-income students tend to be more price-responsive (i.e., they are more likely to enroll in
college, or change the type of institution in which they enroll) than white and
middle- and upper-income students (p. 29).

This research also presents evidence that the type of aid awarded has an impact on
college attendance as well. For example, grants have been shown to have a greater affect
on enrollment behavior than work-study programs or student loans for the same award
amount.

Another social aspect of merit aid addressed in current literature is who pays and
who benefits. Several different studies show that the families who pay the most (i.e. play
the lottery more frequently) benefit the least. This aspect is relevant only for those
programs in states where the lottery is the merit program’s designated funding source. A
study conducted by University of North Florida researchers found that lower socio-
economic households in Florida pay $97.67 per year on the non-Lotto lottery games (e.g.
scratch offs, etc.) compared to high socio-economic households at $16.40. The
differences between these amounts for the two groups intensify when calculated over a
lifespan (Borg & Stranahan, 2000). Lottery data from other states are consistent with the
findings in Florida. An analysis by the Atlanta— Journal Constitution, found that the 20
zip codes with the most lottery winners had annual household incomes that were below
the state’s median income (Selingo, 2004). By comparison, household incomes were 72
percent higher in the 20 zip codes with the most HOPE recipients. The higher income zip
codes also earned two and a half times the number of HOPE scholarships compared with
their low-income counterparts (Selingo, 2004). Studies of the nation’s two largest broad
based merit programs, Florida Bright Futures and Georgia HOPE, suggest that “lottery
funded, merit-based scholarship programs result in a transfer of wealth from the lower

socioeconomic classes to the higher socioeconomic classes” (Heller and Rasmussen, 2002; Stranahan and Borg, 2004; Binder and Ganderton, 2002; Dynarski, 2002).

This trend of providing financial aid to the wealthy and middle class is the antithesis to the approach historically taken in this country regarding post secondary financial aid (Cornwell, Lee and Mustard, 2002 as cited in Heller, 2003). Since the late 1950s, when the federal government first began to consider broader efforts to remove college price barriers need has been the key factor when determining how to award aid funded with public dollars. The federal financial aid programs created in the 1960s and 1970s emphasized financial need and ability to pay as the primary eligibility criteria, during this time policies were implemented to increase access for students who had been overlooked in the past by keeping tuition costs low, developing affirmative action plans to increase minority enrollment and creating the federal Pell grant (Orfield, 2002; Walton, 2004).

Not all of the social aspects are negative. For example, students graduate with less debt, middle income families do not have to put aside money for years at a time in order to pay for their kids’ college, freeing them to save for retirement instead. Also, students receiving merit aid can use the time they may have spent working a full or part-time job, to help pay for college, to now focus more on their academics (Strom & Strom, 2004).

Academically, merit programs have garnered a number of noteworthy achievements. Reducing the need for remediation as a result of more rigorous course taking during high school is a major accomplishment attributed to the onset of merit programs (OPPAGA, 2004). State financed merit scholarships have also succeeded in increasing high school students’ grade point averages, college preparedness by providing
an incentive to enroll in college preparatory courses, and total state university enrollments (OPPAGA, 2003). In Georgia, HOPE increased the first-time freshman enrollment rate by six percentage points (Cornwell and Mustard, 2002). Florida has also realized similar increases in state university enrollment. A 2003 program review by the state Office of Program Policy Analysis and Government Accountability (OPPAGA) found that since the inception of Bright Futures more Florida high school graduates are attending college in state. Before the implementation of the program only about 52 percent attended college in Florida, five years after Bright Futures the number rose to 62 percent.

Cornwell and Mustard (2002) note that enrollment increases are due to choice not access. Students who contributed to the enrollment increase were always college bound. They merely decided to remain in state because of the financial benefits. For example, the number of African-Americans enrolled in Georgia public and private universities increased 24 percent from 1994 to 1998, an increase largely attributed to the HOPE scholarship. During the same time span, however enrollment of Georgia residents at neighboring states’ Historically Black Colleges and Universities dropped 34 percent (Wright, 2001). Apparently college bound African-American students opted to stay in state to realize the benefits of HOPE.

The tendency to remain in state has accomplished the mission of preventing “brain drain” and keeping the “best and brightest at home,” the stated mission of several states offering broad merit programs. For example, during the first year of Florida Bright Futures only 64 percent of students who qualified for the highest-level merit award, the
Florida Academic Scholarship, remained in state. Three years later the percentage rose to 71 percent (OPPAGA, 2003).

Keeping the best and brightest at home has also caused many merit aid recipients to flock to the state’s flagship university. West Virginia, Florida, South Carolina and Georgia have all experienced this phenomenon. For example 98 percent of in-state freshmen at the University of Georgia are HOPE scholars and pay no tuition and 99 percent of incoming in-state freshman at the University of Florida are Bright Future Scholars (Wright, 2004; FL Senate Education Committee, 2002). According to University of Florida president, Bernie Machen, during the 2003-2004 academic year 72 percent of the university’s undergraduates were receiving the scholarship (Haber 2004). The states’ top universities have been able to raise admissions standards even higher in response to the increased number of high caliber students choosing to enroll (Cornwell and Mustard, 2002). Research shows that when admissions requirements reach the point that average performing affluent students cannot gain admission to the state’s flagship university those students will go out of state to a university with similar characteristics to the in state’s flagship university rather than attend a less prestigious university in state (Cornwell and Mustard, 2002).

Merit scholarships have also impacted the rate of baccalaureate degree completion (OPPAGA, 2004). In Florida, 70 percent of the inaugural class of Bright Futures Scholars completed their undergraduate degrees within six years compared to only 39 percent of non-recipients (OPPAGA, 2004). The difference among recipients and non-recipients is significant with regards to retention rates. Eighty percent of the 1997 Bright Futures Scholars stayed in college compared to 59 percent of non-recipients, “community college
students showed similar outcomes but had somewhat lower rates of degree completion and persistence in college” (OPPAGA, 2004).

Four-year universities have fared well in the merit aid revolution. A majority of merit aid award recipients attend four-year universities. The total effect on community colleges is still unclear. University of Georgia economists, Christopher Cornwell and David Mustard found that the Georgia HOPE program had no effect on enrollment at community colleges. Cornwell and Mustard (2002) argue that a significant increase in community college students would be evidence that HOPE was increasing access to higher education as opposed to providing a full ride to students who would have attended college without the money from HOPE. In Florida, enrollment at two-year institutions has continued to increase but the cause of growth has not been linked to the state’s merit aid program (Finken, 2004). Though merit scholarships have not had a direct impact on the number of students who attend community college they are purported to have an indirect impact on the type of student that attends community college. For example, an average performing student who wins a broad merit scholarship like Florida Bright Futures or West Virginia’s PROMISE is more likely to attend a four-year university than a community college to get more “bang for the buck.” This student, without the scholarship, would typically have been a community college enrollee. This phenomenon raises the issue of the likelihood that state community colleges will become “reservoirs for students with academic problems” (Finken, 2004).

Politically the merit scholarship programs could not be more popular because a majority of the voting constituency benefits (Cauchon, 2004). Political campaigns and careers have been founded and maintained on the promise of state merit aid programs.
Georgia’s most notable merit aid champion Zell Miller campaigned and won the governor’s seat on the basis of creating a state lottery for the purpose of providing full tuition grants to high school graduates. Miller successfully linked the passage of a state lottery to the creation of HOPE scholarships for Georgia students. After Governor Miller’s success, at least 12 other states followed suit and established similar programs of their own, all with income limits high enough to include the largest single batch of American voters—the middle class (Finken, 2004; Walton, 2004). Another 17 states expanded their existing merit aid programs to resemble the new breed of merit scholarships (Walton, 2004). Members of the U.S. Congress were also influenced by Georgia’s program and passed a federal tuition tax credit that bears the program’s name—HOPE (Selingo, 2003).

West Virginia was one such state to follow Georgia’s lead by linking the passage of state regulated gambling directly to merit aid. Governor Bob Wise based his campaign platform for governor on taxing revenues from slot machines and video poker to fund West Virginia PROMISE scholarships, another broad based program paying 100 percent of public universities tuition and fees (Lisa De Frank-Cole, West Virginia Higher Education Policy Commission, personal communication, October 11, 2004). The strategy proved successful and Governor Wise, a democrat, was elected in 2000 in a state whose electoral votes went to the republican presidential candidate.

The extent of the political popularity of merit programs is best demonstrated when attempts are made to lower the award amounts, increase the standards or make any alteration that will likely decrease the number of eligible recipients. Georgia Governor Roy Barnes, a Democrat, tried to reduce HOPE payments for fees but withdrew his
proposals after fierce opposition from students (Selingo, 2003). Governor Barnes’ successor Sonny Purdue, a republican, also faced similar resistance when he supported adding a SAT requirement to HOPE eligibility standards (Selingo, 2003). The increasing cost of Florida’s program has even caused the Council of 100, a powerful business group that has advised Florida governors for nearly half a century, and the Florida State University Presidents Association to weigh in on the matter in support of taking steps to hold down the cost of the program (Schmidt, 2003).

The issue is clearly one that transcends party affiliation as was demonstrated in Florida when House republicans and Governor Jeb Bush advocated a number of changes to Bright Futures that would reign in costs. Fellow republican and Senate Appropriations chairman Ken Pruitt proved to be the most vocal and most powerful opponent to the proposed changes. Senator Pruitt, the House sponsor of the Bright Futures legislation in 1996, toured the state on a yellow school bus to bolster support for the scholarship and awareness of the changes proposed by members of his own party. Pruitt also founded a political action committee to promote the Bright Futures Program as it is currently administered (Selingo, 2003). In conjunction with Senator Pruitt’s efforts, the Brighter Futures Foundation, a non-profit group that raises money in support of the state’s merit program, successfully organized a rally on the Capitol steps of thousands of parents and students demanding the Legislature make no changes to the scholarship. As a result, changes to the Bright Futures program were stalled in the face of the strong, well-organized opposition (Schmidt, 2003).

Suggested changes to state merit scholarships generally come on the heels of a report revealing significant social inequities or a state budget crisis. However it has been
a budget crisis that has typically been the catalyst for any change to the popular programs. Relatively little literature exists on the fiscal aspects of these programs although, as the concept gains maturity and state coffers tighten, the difficulties of funding broad based programs come to the forefront. These scholarships emerged during a time when state economies were very robust and revenue from gaming and the tobacco settlements were padding state budgets. Now the tide has changed. Economic downturn threatens the success of the popular programs. State legislators often times look to “higher education, the discretionary balance wheel in state budgets” when cuts are necessary to pass a state spending plan (Walton, 2004, p. 2). Since the 1970s the trend has been that when times are hard financially higher education takes the biggest hit. It is the overall challenge of funding higher education as a whole that is now drawing some attention to the oft-unmentioned burden of paying for popular merit programs (Walton, 2004).

A weak economy and huge state budget deficits have resulted in major budget reductions for state supported universities. Officials are left with little choice but to raise tuition (Custer, 2003). In states like Georgia, Florida, Louisiana, New Mexico and West Virginia, where a significant number of college students receive merit awards covering 75 to 100 percent of tuition and fees, the state increases the cost to itself when tuition is increased (Schmidt, 2003). However after the Florida Legislature, which funds public higher education through general revenue, lottery funds and tuition, decided to cut $40 million dollars from the state university budget during FY 2003-04, tuition increases were inevitable despite the pressure such hikes cause in the state’s merit award program (Custer, 2004 & OPPAGA, 2004). According to the Chronicle of Higher Education
seven consecutive years of a 12.5 percent annual increase in Florida tuition would cause the annual cost of Florida Bright Futures to rise to more than $450 million. Future annual tuition increases of 12.5 percent are not likely. The 12.5 percent figure is the increase that was approved by members of the state House during the 2003 Legislative session when higher education suffered massive budget cuts, the Legislature as a whole later approved a tuition increase for in state students up to 8.5 percent and an increase up to 15 percent for out-of-state students. The Florida Legislature has approved increases for in-state tuition ranging from five to eight and one half percent every year since 1999 (“Historical Funding,” 2003).

Budget cuts combined with increasing tuition rates can jeopardize broad base merit aid programs. That was the case in Arkansas during the 2002 fiscal year. State budget shortfalls left the state’s merit program, the Academic Challenge Scholarship, unfunded for the 2002-2003 school year. As a result the state could not maintain its commitment to new and renewing Academic Challenge recipients during the fiscal crisis. The break in funding led to a great deal of uncertainty about the future of the program. Some high school students dropped out of the college preparatory curriculum required by the merit program (Hilliard, 2004). Although funding was restored the following year, Arkansas has what state education officials calls a “lost class,” a group of students who lack a year’s worth of requirements to obtain a scholarship they doubted would exist when they needed it (Hilliard, 2004). Arkansas is not the only state to encounter significant funding problems for its merit program during difficult financial times.

3 The Legislature has retained primary authority for establishing tuition rates at state institutions. Florida is one of four states including Louisiana, Texas and Oklahoma in which the state Legislature maintains this authority although Legislatures in other states with large merit programs have capped tuition at specified levels (OPPAGA, 2004 Aug).
In Michigan, the state Merit Award Scholarship was reduced by $500 per student for FY 2003-04 because of state budget shortfalls. Students receiving Missouri’s merit scholarship had their award decreased by $300 because of budget woes (Walton, 2004).

The Georgia HOPE Scholarship could soon be in a bind similar to the one Arkansas experienced two years ago if changes are not made to rein in program costs. Georgia state universities have faced cuts totaling $251 million between 2001 and 2003, yet the state university system has admitted 45,000 additional students (Custer, 2004). Georgia university officials also raised tuition. As state budgeters cut higher education funding they are at the same time doubling state financed merit aid to compensate for tuition hikes. This vicious cycle has birthed the question reverberating among university administrators nationwide. How can a state continue to “aid” when it cannot maintain system necessities (Schmidt, 2003)?

A projected deficit of $434 million in the program by 2008 has prompted Georgia lawmakers to take action in the face of public opposition (Selingo, 2003). HOPE, the oldest and most expensive program of its kind, marked its tenth anniversary struggling to remain solvent. States with similarly structured programs will likely face similar funding issues as the size and cost of the program balloons with time (“HOPE Commission Report,” 2003). Louisiana, West Virginia, and New Mexico have already faced shortfalls in their programs and Florida’s Bright Futures Scholarship may soon be a victim of its own success (Selingo, 2003; Haber, 2004).

The program is approaching its eighth anniversary and showing signs similar to those which created major fiscal problems in Georgia’s program: tuition increases, increasing the number of recipients, and reduced revenues (“HOPE Commission Study
Four consecutive hurricanes in the state of Florida had dramatic impacts on the state lottery. Evacuations, a shift in priorities of Floridians, a drop in tourism, and the destruction of lottery ticket sale sites has impacted lottery revenues (Lottery Estimating Conference, 2004). There are also increasing demands on the scholarship’s funding source, the lottery. Constitutional amendments such as universal pre-kindergarten and class size are creating pressure. These two mandates, passed by Florida voters, will lead to a significant increase in spending and will compete with Bright Futures for funding from the lottery trust fund. By law, the Educational Enhancement Trust Fund (lottery) is first used to pay debt service on bonds sold to pay for school construction currently, $229 million per year. This amount is sure to increase, as more school construction is needed to accommodate the influx of pre-kindergarten students into public school classrooms. These pre-kindergarteners will be constitutionally entitled to smaller class sizes (s. 21.121 F.S). Each of these factors raises questions regarding the fiscal viability of an unmodified Bright Futures program.
III. Methodology and Evaluative Criteria

Information was collected using the following methods:

- Analysis of academic publications and news articles using the following databases:
  - Lexis-Nexis Academic Universe
  - OLC First Search
  - Wilson Web
  - National Conference of State Legislators (NCSL) Legislative Reports

To assess the budgetary effects of large scaled state financed merit programs the study compared the merit programs of 11 states: Arkansas, Georgia, Kentucky, Louisiana, Maryland, Michigan, Mississippi, New Mexico, Nevada, South Carolina, and West Virginia to Florida’s program. Comparative states were chosen based on program size and their similarity or dissimilarity to Florida’s program. The comparison cross-referenced the size and cost of the program to program requirements for initial awards and renewals.

The comparison was facilitated by reviewing the official program websites in each state. Interviews were conducted with each state’s program manager, administrator or executive director. The interviews were conducted using an interview schedule that included impromptu follow up questions as needed. Interviews were the method of choice because they helped to answer questions unaddressed by the official program websites. Interviews also provided insight on the experiences and coping behaviors of other states when funding problems occur. Interviews also served as a means to obtain
information on impending program funding issues as yet unaddressed in current literature.

Program administrators in Nevada, New Mexico, Maryland, Florida, and Louisiana responded to the prepared interview schedule via email. These administrators specifically requested written questions because of several reasons: departmental policy, time constraints, questions addressed issues that were beyond the scope of their job and required staff input. Written responses to interview questions caused limitations to information gathering because they did not allow for elaboration and clarification on specific questions. They also eliminated the personal interaction inherent in a one-on-one interview in which anecdotal information is conveyed. One administrator who requested written questions did not respond.

Information gleaned from interviews and electronic sources were supplemented by data obtained from the Carl Vinson Institute of Government at the University of Georgia. Information specific to Florida’s merit program was collected using the following methods:

- Review of State Senate Analysis of Implementing Bill CS/CS/SB 858
- Review of State House Bill Research and Economic Impact Statement SB 858
- Review of 2004 Florida Appropriations Act HB 1835
- Unstructured interviews with Senate Appropriations Chairman Kenneth Pruitt, Senate Education Committee Staff Director Mike O’Farrell; House Education Appropriations Staff Director Kathy Mizerick; Economic and
Demographic Research Forecaster Beth Lines; State Director of Scholarships and Grants Theresa Antworth

- Attending the October 14, 2004 Educational Enhancement (Lottery) Trust Fund Estimating Conference
- Gathering and analyzing data from OPPAGA Information Briefs 03-31, 04-44, 04-54 and Program Review 04-23 regarding information on Florida student demographics, courses, graduating grade point averages, college entrance exam scores,
- Review of several Florida Department of Education databases: Bright Futures eligibility and awards, enrollment distribution of Bright Futures Scholars at state universities.
- Review of applicable Florida Statues
- Review of forecasted growth in the Bright Futures Program compared to lottery revenue projections

All forecast data has some level of limitation because they are simply estimates not certainties. Current forecasts of Florida lottery revenue extend 10 years ahead, covering years up to FY 2015-16 only. Projecting revenues so far ahead is very problematic and uncertain. The accuracy of the forecast data obtained was verified by using two different and independent sources: the Florida Department of Education Office of Student Financial Aid, and the Office of Economic and Demographic Data.
Evaluative Criteria

Three criteria were used to evaluate policy options. These three criteria were selected because they are directly related to the problem and are issues addressed in part by the relevant literature. A scale of 1 to 3 defined below is used to assign a numerical value to each criterion within each policy option. The numeric value assigned to each criterion is based upon information obtained from the data sources. The criteria are as follows:

- **Cost.** The ballooning cost of merit-based programs is the biggest threat to their long-term viability. They are expensive to maintain in times of state budget reductions (Walton, 2004). Therefore, the policy options should weigh direct costs over the long run. Will the policy option result in a cost savings to the dedicated funding source and as a result increase the program’s longevity? A score of 1 indicates no cost savings, a score of 2 indicates a slight cost savings, and a score of 3 indicates a significant cost savings. The data sources were news articles, Florida Department of Education Long Term Lottery Revenue Forecasts, Florida Office of Economic and Demographic Research Historical Analysis of FEFP Appropriations, and interviews.

- **Equity.** “The people who spend the largest amount on lottery tickets, and, therefore, bear the greatest burden from the tax inherent in lottery expenditures are disproportionately from households that are low-income, non-white, and have low levels of educational attainment” (Borg & Stranahan, 2000, p.2). The current structure of the program results in a number of inequities because those least likely to benefit contribute the most financially to lottery-funded programs. Does
the policy option provide parity in regard to who pays and who benefits? A score of 1 indicates no parity between payer and beneficiary, a score of 2 indicates slight movement toward parity, and a score of 3 indicates a significant measure of parity. The data sources were academic literature, Florida OPPAGA Reports, and news articles.

- **Political acceptability.** Popularity among middle class voters is documented as the driving force behind the proliferation of broad-based merit scholarships and the reluctance to modify them ("HOPE Study Commission," 2003). Therefore it is important for policy alternatives to be those most acceptable by the group that made the program popular—the middle class. Does the policy option negatively impact the middle class student who is too affluent to qualify for need-based aid yet has financial need? A score of 1 indicates no negative impact, a score of 2 indicates a slight negative impact, and a score of 3 indicates a significant negative impact. The data sources were news articles, OPPAGA Reports and the HOPE Scholarship Joint Study Commission Report.
IV. Management Policy Options

Evidence from the states studied reveal a string of meaningful patterns and relationships that provide insight into the management policy options detailed in this report. Interviews with program administrators and in house studies conducted by the staff in the states’ agencies provide the lion share of data used to compile the findings discussed here. The facts that emerge from this analysis can be used to draw a number of useful conclusions about the structure of state financed merit programs.

For example, of the 12 states studied, half (FL, GA, KY, NM, WV, SC) use the state lottery as the merit program’s funding source. Among those six, four or 66 percent award scholarships that cover full tuition at public institutions. The remaining six states (AR, LA, MS, MD) use general revenue, or tobacco settlement money (NV, MI) to fund merit programs. Among these six states only one awards full tuition (LA). The remaining five all award merit scholarships by giving eligible students a specific dollar amount, or by limiting the dollar amount as is the case for Nevada. The evidence suggest that states which use the lottery as the program funding source are less concerned about controlling program costs by assigning a specific dollar amount for the scholarship award because they are “betting on” the lottery to be a “sure thing” for covering increases in cost. On the other hand, states that use general revenue dollars to fund merit programs may be more likely to define an award amount because the scholarships compete with many other projects for general revenue funding suggesting that lawmakers are more likely to be aware of the need to control program costs when merit programs are funded from a source with limited discretionary spending capabilities.
The exception to this is Louisiana, the only state that awards full tuition through its merit program Tuition Opportunity Program for Students (TOPS), and pays for the program with monies from general revenue. The reason for Louisiana’s unique position may be explained by a comment made by a state higher education official “they will stop building roads in this state [Louisiana] before they’ll stop funding TOPS” (AACRAO, 2000, p. 4). Obviously Louisiana state lawmakers have made TOPS a very high funding priority of the state’s general revenue fund. TOPS is funded first and then the remainder of the state spending plan is built around it (Bienvenu, 2002).

Another point of interest obtained from the 12 state study is that the states with specific award amounts are also the states in which legislators have no control over tuition prices at public universities. Placing a limit on the scholarship award may also be a way for state lawmakers to keep universities from using the merit scholarships as a blank check into state coffers. In programs that award merit scholarships based on percentage levels, increases in tuition means an increase in merit scholarship awards. For states like South Carolina, where each university has tuition setting authority, failing to limit the merit award amount could encourage tuition hikes and result in substantial program cost increases. Clemson University, for example, has raised its tuition 42 percent since South Carolina implemented its lottery funded HOPE Scholarship in 2002. The university has the greatest number of the state’s mid tier merit recipients enrolling in its freshmen class. The director for the state’s merit programs believes the tremendous rise in tuition is the response of university administrators to the new trend in higher education funding, allocating money to students rather than to universities (Karen Woodfauk, South Carolina Commission on Higher Education, personal communication, November 2,
Other universities in the state have raised tuition prices. None were as large as the increases approved at Clemson University.

All 12 states studied have experienced tuition increases. For states that award a specific dollar amount to merit aid recipients, the buying power of those scholarships decrease each time tuition is increased. The awards though, often still cover full tuition at state community and technical colleges and as much as 50 percent of the tuition at four-year universities. This demonstrates that awards with specific dollar values can still provide substantial assistance to students in spite of rising tuition costs. For example, Arkansas’ Academic Challenge Award provides only $2,500 per year, but that amount covers about 53 percent of the annual tuition at a four-year state university and full tuition at the state’s community and technical colleges.

There are at least three policy options that could be used to control costs in the Florida Bright Futures Program. The policy options are: means testing, higher eligibility requirements, and specific or indexed awards. Each policy option is evaluated on its ability to save money (cost), ability to connect payer to beneficiary (equity), and its ability to appeal to the relevant power groups (political acceptability).

**Option One: Means Testing**

Means testing for the purpose of this discussion is an “investigation into the financial well-being of a person to determine the person’s eligibility for financial assistance” (American Heritage Dictionary, 2002). Florida Bright Futures has no need component. A student who meets the designated eligibility requirements can receive a full or partial payment of tuition and fees regardless of family income. Nevertheless a student’s ability to afford college is noted to be an important factor in determining if a
high school graduate will ultimately earn a baccalaureate degree (OPPAGA, 2003). A family’s means, therefore is a valid issue for consideration when determining who should, and should not, get public financial assistance to attend college.

Other merit aid states such as South Carolina, Mississippi, Arkansas and most recently Maryland consider need a determinant in awarding merit aid. For example, in Arkansas applicants must meet certain financial need requirements to receive an Academic Challenge Scholarship, the state’s broad based merit scholarship (Deere, 2003). The need assessment considers the number of dependents in the household and the family’s adjusted gross income.

Cost: Cost was a factor in at least one state that has implemented means testing. When state budget shortfalls resulted in funding cuts to merit programs, policymakers in Maryland indicated they wanted to ensure that those least able to afford college could continue to pursue an education while reducing the size of the program (MHEC Communications, 2004). Maryland Governor Robert Ehrlich proposed that only current merit aid recipients continue to receive funding while the state is facing spending deficits. New merit awards have been suspended in favor of funding scholarships for those who have a financial need (MHEC Communications, 2004).

In Florida, program data from 2000 shows that including a means test to the eligibility requirements for Bright Futures could reduce program costs by as much as $16.7 million or as little as $3.1 million (OPPAGA, 2004). The difference in savings is determined by the level at which family income is capped. If the cap is $38,820, the state’s median income according to 2000 census data, the savings would be at least $16
million per year (OPPAGA, 2004, Mar). If capped at $50,000 above the state’s median income the savings would amount to at least $3.1 million dollars (OPPAGA, 2004).

**Equity:** The Harvard Civil Rights Project (2002) indicates that merit programs that do not consider financial need fail to equalize the opportunity to attend college. They increase the gap between wealthy and low-income students. Lottery funded programs such as Bright Futures have been labeled as highly redistributive, transferring money from the poor to the rich, due to the lottery playing habits of the two socio-economic groups (Walton, 2004).

Means testing can be a tool to balance the scales. However the difficulty is in determining at what income level a student is considered needy. There is evidence which indicates some Bright Futures recipients with family incomes of up to $75,000 still have unmet financial need (OPPAGA, 2003). Students from these middle and upper income families many times exceed the threshold for need-based assistance yet still require help financing a college education. The number of dependents and the personal habits of a family can tremendously impact the value of an annual household income. As a result, assigning an income limit to a means test does not assure equity.

**Political Acceptability:** The middle class voter has helped to make broad-based merit programs the fastest-growing type of college financial aid (Cauchon, 2004). Programs like Bright Futures and its dozen counterparts finally give the middle class voter an opportunity to be on the receiving end of a government program. Most times the middle class shoulder the financial burden of programs and initiatives that benefit every socio-economic group but their own. They are reluctant to support any change that would make merit based financial aid less accessible to them. As a result means testing can be
problematic. Georgia began its merit program with a $66,000 income cap, but the following year raised the cap to $100,000. At the same time Georgia increased the private-college grant from HOPE to $3000 (Selingo, 2003). By the third year of the program’s existence, all income limits were removed because revenue from the newly passed lottery was growing. Lottery revenue in Georgia is now decreasing as neighboring states have implemented lotteries in recent years. South Carolina did so in 2000 and Tennessee followed in 2003. Despite the reduction in lottery revenue, a cap on income remains unpopular. A recent poll of Georgia residents showed only half support an income cap as high as $100,000 per year (Selingo, 2003).

**Option Two: Higher Eligibility Requirements**

Students who receive the maximum financial benefit from the Bright Futures program must meet the requirements of a 3.5 GPA, a 28 ACT score, or a 1270 SAT score. To have only 75 percent of their tuition and fees covered by Bright Futures, students need a 20 ACT score, a 970 ACT score and a 3.0 GPA. Students also have the option of taking the state’s college placement test (CPT) to earn a Gold Seal Vocational Scholarship award under the Bright Futures program. This award also covers 75 percent of tuition and fees. An eligible student need only score the minimum subset score on the CPT to earn the scholarship.

Some argue that the academic standards used to award Bright Futures and other merit scholarships stretch the meaning of the term “merit.” Merit based awards have traditionally been defined as the monies given to students who perform at the highest level of academic achievement. The expression “merit aid” now characterizes an average academic performance, not one that is outstanding. Some state merit programs offer
awards based on eligibility requirements that are lower than the admissions requirements at four-year public universities. For example the Bright Futures Medallion Scholars award covers 75 percent of tuition and fees, and is the award level that is experiencing the most growth, yet the SAT/ACT requirement for the award is the minimum score allowed for admission to the state’s 11 public universities (FACTS.org).

Georgia’s HOPE program has no standardized test requirement and awards full tuition based on a “B” average. The state is number one in the nation for awarding merit aid scholarships but is in last place among other states in average SAT scores (Selingo, 2003). In Arkansas, a merit award can be earned with an ACT composite score as low as 15. The state average is 20.2 (Arkansas Department of Higher Education, 2004;ACT Average Composite Scores by State, 2003). Legislators in South Carolina decreased the merit award criteria to be more forgiving academically by requiring two out of three requirements as opposed to all three: a 3.0 GPA, a 1,100 on the SAT or graduating in the top 30 percent of their class (Karen Woodfaulk, South Carolina Commission on Higher Education, personal communication, November 2, 2004). The Legislature also allows merit award recipients to use grades earned at schools other than the institution where the student primarily attends to apply to the GPA used to determine merit aid eligibility. For example, a student can take an elective course at a community college during the summer and use the grade earned in that particular course to bolster his or her overall GPA. Realistically the programs’ current eligibility requirements identify them more as grants than merit scholarships. The use of the term merit, despite the often times low requirement standards, provides a pretense of students “working harder” to earn the financial assistance.
Increasing the standardized test requirements of the Bright Futures Medallion award could help make this level of award more credible as a merit based award. It could also help control the size of the program since the Medallion Scholarship comprises more than 70 percent of the Bright Futures scholarships (OPPAGA, 2003).

**Cost:** Increasing SAT scores for the 75 percent Medallion Scholarship from 970 to 1010, 40 points above the minimum SAT requirement for state university admissions, would result in a reduction of 24 percent of eligible students for a savings of $12.7 million to the program during the first year the changes would take effect (OPPAGA, 2004). Raising the SAT score to 1050 would eliminate 39 percent of the current Medallion Scholarship recipients for a program savings of $20.6 million the first year changes were implemented (OPPAGA, 2004).

When raising requirements for merit scholarships, SAT or ACT scores tend to be a better option compared to raising the required grade point averages. The standardized test scores are not susceptible to grade inflation the way that GPA’s are and because these tests are commonly used as indicators of college success increasing the requirements for them helps to ensure the state’s investment by giving financial assistance to those students most likely to complete college (Karen Woodfauk, South Carolina Commission on Higher Education, personal communication, November 2, 2004). This year lawmakers in West Virginia increased the minimum subscore requirement in each ACT subject area: math, science, English, and reading for PROMISE Scholarship recipients. SAT subscore minimums were also imposed. Students in West Virginia still have the same combined SAT score requirement, however they must score a minimum of 490 on the verbal section and 480 in the math section to be eligible for PROMISE (Lisa De Frank- Cole,
West Virginia Higher Education Policy Commission, personal communication, October 11, 2004). The stricter guidelines were intended to keep the program financially manageable by controlling the number of students eligible to receive the program and eliminating those students who score at levels that indicate a need for remediation. They are least likely to finish college (Lisa De Frank-Cole, West Virginia Higher Education Policy Commission, personal communication, October 11, 2004).

**Equity:** There is evidence that raising Bright Futures SAT/ACT requirements would have differential effects on minority and at-risk students (OPPAGA, 2003). For example, data indicates that if the SAT requirement for the Bright Futures Medallion award were raised to 1010, 37 percent of African Americans students would lose their award. An estimated 29 percent of Hispanic students, 33 percent of free and reduced lunch students and 36 percent of limited English proficient students would also lose eligibility compared to 22 percent of white students (OPPAGA, 2003). The percentages of those in minority and at risk populations who would lose their Bright Futures awards would increase as the standardized test scores increase (see Table 1).

Table 1

<table>
<thead>
<tr>
<th>Standard Change</th>
<th>Group</th>
<th>African Americans</th>
<th>Hispanics</th>
<th>Caucasian</th>
<th>Free/Reduced Lunch Students</th>
<th>Limited English Proficient Students</th>
</tr>
</thead>
<tbody>
<tr>
<td>Raise SAT to 1010 or ACT to 21</td>
<td>37%</td>
<td>29%</td>
<td>22%</td>
<td>33%</td>
<td>36%</td>
<td></td>
</tr>
<tr>
<td>Raise SAT to 1050 or ACT to 22</td>
<td>55%</td>
<td>46%</td>
<td>36%</td>
<td>52%</td>
<td>54%</td>
<td></td>
</tr>
</tbody>
</table>

*Source: OPPAGA 2003*
Differences in performance among varying groups of students on standardized tests help explain how increasing the test score requirements for scholarships can have differential effects. Student characteristics such as race, gender and class have been shown to have a significant connection to test scores at every grade level and in every subject. Organizations such as FairTest and the American Educational Research Association have indicated glaring differences in test scores on the ACT assessment for high-income and low-income students and for white and non-white students (Janesick, 2001). Gaps in test performance have been found consistently in reports from the National Assessment of Educational Progress (NAEP), a federal program that has tested nationally representative samples of students in various subjects since 1969. Representative samples of high school students from 1969 to 1996 have shown that about a third of the gap between African-American students’ scores and Caucasian students’ scores are due to socio-economic differences between the groups (Heller and Rasmussen, 2002).

Similar findings have fueled the lawsuits by civil rights groups that are currently pending against states that use “rigid test score cut offs” to determine eligibility, Florida and Michigan specifically. According to the ACLU using state standardized tests as well as SATs and ACTs discriminate against minority students (Selingo, 2004).

**Political Acceptability:** The possibility of a legal fight aside, all attempts to raise eligibility requirements for Bright Futures Scholarships have been met with staunch opposition. Some higher education administrators, state lawmakers and prominent business leaders have said the bar is too low for earning Bright Futures Scholarships. Their calls to increase requirements have been stalled by parent and student supporters
(Haber, 2004). A poll of 34 Florida Legislators asked how would you vote if legislation were proposed to increase the program’s eligibility requirements. Nine legislators said they would vote yes, 18 said they would vote no, three said maybe and three chose not to say how they would vote (Haber, 2004). The results of the poll show that an attempt to increase requirements for Bright Futures would likely fail two to one.

Florida lawmakers are not the only politicians reluctant to require higher standards. When Georgia Governor Sonny Purdue recently proposed adding a SAT score of 1000 to the “B” average requirement for a HOPE scholarship a firestorm of opposition erupted among state legislators. Increasing requirements tends to be unpopular for two very different reasons: (1) raising standards hurts those who are currently the least represented in the merit aid award arena thereby increasing program stratification, and (2) middle class voters who are currently reaping the most benefits under the present structure and are unwilling to change any aspect that may adversely impact their benefit.

**Option Three: Establish a fixed award amount for each award level**

Of the 23 states offering some type of merit financial aid, 18 or 78 percent offer scholarships that specify a fixed award amount. For example in the 12 states studied in this report, three index the awards given based on grade level or academic achievement and another three provide awards to students that are for a fixed amount. The State of Mississippi indexes its merit awards by college grade level. Freshmen and sophomores receive $500 and juniors and seniors receive $1000 scholarships. In Arkansas an Academic Challenge Scholar will receive an award of $2,000 for the first year. The amount increases to $2250 for the second year, $2500 the third year, and $3000 the last year, provided the student remains in the program. Kentucky on the other hand indexes
its merit award amounts based upon high school GPA and ACT scores. The better a student performs on the standardized test and in his course work, the larger his merit aid award will be. For example, a Kentucky student with a 2.5 GPA earns $125 for college tuition, a 3.5 GPA earns $375, and a 4.0 earns $500. ACT scores increase the dollar amounts earned from the grade-point-averages. A score of 15 will gross $36, a score of 21 earns $250, and a score of 28 or higher earns $500. Therefore a Kentucky student who scores a 21 on the ACT and has a 4.0 earns a $750 merit scholarship for that academic year. Renewals are also based on grade point average.

Florida, New Mexico, Georgia, West Virginia and Louisiana are in the minority among merit aid states. The programs in these respective states all tie the scholarship award to the cost of tuition by paying 100 percent of tuition costs instead of a flat or indexed rate.

Cost: Awarding Bright Futures at a flat or indexed rate instead of as a percentage of actual tuition would diminish the connection between program costs and tuition increases. For example, the average dollar value for the full tuition scholarship is currently $2,834.00 per year and the 75 percent scholarship is worth an average of $1,676.00 per year (Stranahan & Borg 2004). Implementing a flat award of $2,900.00 for the Academic Scholars award and a $1700.00 flat award for the Medallion Scholars award would allow the Bright Futures program to keep its commitment to those students currently receiving scholarships to pay 100 percent or 75 percent of tuition and fees. New students who become eligible for the program, however would expect to receive a flat award of either $1700.00 or $2,900.00, not a percentage of tuition. The state could continue to provide the 75 to 100 percent tuition coverage only to students currently in
the Bright Futures Program as tuition costs increase. New enrollees, on the other hand, would not get an increase in award as tuition prices rise.

Removing the link between program costs and tuition through a flat rate would result in a cost savings to the state when tuition is increased. For example the total number of Bright Futures scholars for 2003-04 FY was 117,903 for a total cost of $202.2 million. For the following fiscal year the total number of Bright Futures scholarship recipients was projected to be 123,000 at a cost of $243 million assuming no tuition increase. If tuition rates were increased by 8.5 percent, as they have for the previous two fiscal years, the total cost of providing Bright Futures to those 123,000 students would be $262 million, an increase of $19.5 million (“Historical Funding,”2003). The program is expected to increase by 5,097 new eligible students in FY 2004-05. With an 8.5 percent increase in tuition under the current award structure, the cost of those students would be $43.5 million. The cost would be only $15.6 million if the new students were added using a flat rate of $2900.00 for Academic Scholars awards and $1700.00 for Medallion awards.

Legislators must balance the need for tuition increases with their impact on Bright Futures (OPPAGA, 2003). Implementing a flat rate would provide the Legislature the freedom to consider tuition charges separately from Bright Futures costs.

*Equity:* Implementing a flat rate does not change the issues of inequity that have been addressed throughout this report. This reality is proven by the fact that many states that currently provide flat and indexed rates for merit award scholarships also experience stratification in their programs (Heller & Rasmussen, 2002). However the argument can be made that a flat rate would be more equitable than an indexed rate that is awarded by
using standardized test scores in the same way that Kentucky does. The higher the ACT score, the more scholarship money earned. Such an indexed award policy could also have differential effects on minority and at risk students.

**Political Acceptability:** Flat rates for merit scholarships tend to play well among voters and legislators. When the award is large enough to persuade top students to stay in state to attend college, the award is also large enough to induce students to improve their academic performance. To have these desirable effects, the award should be large enough to make a significant contribution toward the cost of financing a higher education (OPPAGA, 2003). A majority of states use flat awards for merit scholarships, which in itself, is a testament to its acceptability. The director of student financial assistance in Maryland said lawmakers in her state chose to award a flat rate of $1,000 for community college students and $3,000 for students at four-year universities because it was “the responsible amount when compared to other [state’s] programs” (Andrea Mansfield, Maryland Higher Education Commission, personal communication, November 5, 2004). The average award amount among flat rate states is $2,000 per year.
V. Conclusion/Recommendation

The policy options of means testing, higher eligibility requirements, and specific or indexed awards were assessed according to the following evaluative criteria: cost, equity, and political acceptability. Table 2 summarizes the results of the analysis.

Table 2

Summary of Policy Options and Evaluative Criteria

<table>
<thead>
<tr>
<th>Policy Options</th>
<th>Evaluative Criteria</th>
<th>Cost</th>
<th>Equity</th>
<th>Political Acceptability</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Means Testing</td>
<td></td>
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<td>2</td>
<td>1</td>
<td>5</td>
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<td>Higher Eligibility Requirements</td>
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<td>4</td>
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<td>Flat Award</td>
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<td>3</td>
<td>1</td>
<td>3</td>
<td>7</td>
</tr>
</tbody>
</table>

A scale of 1 to 3 is used to measure policy options according to evaluative criteria, with 3 being the most advantageous and 1 being the least. Measure based on analyst’s assessment.

Upon the evaluation of each policy option in relation to the evaluative criteria this report recommends the Legislature implement the third management option to control the growth, increase the benefits, and reduce the costs of the Bright Futures Program.

The 18 to 24 age group is projected to increase steadily each year of this decade, resulting in the largest class of graduating seniors in this nation’s history in the year 2009. A majority of these students will be in southern and western states (Strom & Strom 2004). As a result, the large annual increases in the number of Bright Future recipients is not likely to drop off anytime soon. Action must be taken to limit the size of the program now. Establishing a flat award amount is the management option that would allow legislators to address the fiscal challenges associated with the program before a serious financial threat to the program occurs. This option allows lawmakers to do what is best
for the state financially—curb program costs while keeping their constituents happy by implementing a cost saving mechanism they can swallow. Option three unfortunately does not address the equity problem inherent in a lottery funded, broad-based program. Equity is an issue that some believe can never be achieved through any type of broad-based merit program (Heller & Rasmussen, 2002). Nevertheless, the selection of option three provides a proactive approach to ensuring the viability of Bright Futures for years to come.
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