The Florida Senate

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Committee on Education Pre-K - 12 Appropriations

EXAMINATION OF POTENTIAL OPTIONS FOR SCHOOL COMPLETION INCENTIVES FOR AT-RISK STUDENTS

Statement of the Issue

Student performance, graduation rates, dropout levels and readiness for postsecondary education and their improvement are central issues for K-12 public education in Florida. Recently, keeping kids in school and completing high school has garnered additional attention nationally.

At-risk students are referred to frequently in education literature and studies. In the educational context, at-risk youth are those students who are educationally disadvantaged because they have been exposed to inadequate or inappropriate educational experiences in the family, school, or community and are in danger of "dropping out" and entering the juvenile or criminal justice systems. Factors that contribute to this condition include economic status, race/ethnicity, family composition, parents' education, and language orientation.[1] Criteria used to identify at-risk students include: low grade point average (GPA), failure of at least one grade, high absenteeism or truancy, or discipline problems.

The purpose of this issue brief is to describe the kinds of programs and incentives provided for at-risk students and to examine the expansion of high school completion incentives in Florida through the creation of an endowment. Potential revenue options and costs are also analyzed and discussed.

Discussion

Numerous programs have been developed to address the educational needs of at-risk students. Programs for at-risk students have employed strategies such as reducing class sizes, providing tutoring, and providing supplemental or intensive reading programs. In New York, the Harlem Children's Zone Project is a comprehensive community building initiative which focuses on an integrated network of services and support involving parenting, affordable housing, youth development activities and education.[2] In Chicago, the Green for Grades program provides fiscal incentives to students who earn good grades.[3]

For Florida, in 2007, the Departments of Juvenile Justice, Children and Family Services, Military Affairs, and Education operated 237 programs for at-risk children at a total cost of $95.2 million.[4] In addition, $702 million in the Florida Education Finance Program (FEFP) is provided for Supplemental Academic Instruction funds for school districts to provide services which include academic remediation and tutoring for at-risk students. Florida school districts provide programs for teenage parents, disciplinary programs which use counseling, and truancy programs which withhold driving licenses and privileges and require parent involvement. Many programs use volunteers to mentor students, such as the Take Stock in Children program and Big Brothers Big Sisters.

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[1] *Making Schools More Responsive to At-Risk Student*, Aaron M. Pallas, available at: http://www.ericdigests.org/pre-9214/risk.htm.

[2] *100 Blocks, One Bright Future*, Harlem Children's Zone Project, available at http://www.hcz.org/programs/the-hcz-project.

[3] *Earn an A? Here's $50*, Chicago Tribune, September 11, 2008, available at http://www.chicagotribune.com/business/content/education/chi-money-for-grades-11-sep11,0,7506945.story.

[4] Office of Program Policy Analysis and Government Accountability Research Memorandum, March 26, 2008.

The Florida Prepaid Tuition Scholarship Program,[5] also known as Project STARS (Scholarship Tuition for At-Risk Students), provides an incentive to at-risk students to stay in school by promising a postsecondary tuition scholarship award in exchange for good academic performance and lawful behavior. Mentoring activities are also provided. The Florida Prepaid College Savings Program[6] is available as a means to contribute funds in a lump sum or through monthly payments for a tax-advantaged savings program for future postsecondary education expenses for the children or beneficiaries of Florida residents. Project STARS provides this opportunity to students who are economically disadvantaged and at-risk.

Specifically, Project STARS receives a state appropriation[7] which is used by the Florida Prepaid College Foundation[8] to provide economically disadvantaged youth with prepaid college scholarships. To be eligible for a scholarship a student must be a Florida resident, qualify for the federal free or reduced-price lunch program (up to 185 percent of federal poverty guidelines), agree to be drug- and crime-free, be designated by a school district as at-risk, and graduate from high school. Drug-free means not being convicted of or adjudicated delinquent for any violation of chapter 893, F.S. Crime-free means not being convicted of or adjudicated delinquent for any felony or first-degree misdemeanor as defined in ss. 775.08 and 775.081, F.S. The scholarship funds must be matched in an equal amount by the private sector, and participating students must receive mentoring services. The Take Stock in Children program, which received a $3.36 million appropriation in fiscal year 2008-09 for administration of the program, solicits private matching funds and mentoring and other services for the STARS program through school district foundations, community colleges and corporate sponsors/donors.

Prior Legislation

To expand incentives for at-risk students to complete school and pursue postsecondary education, an endowment has been proposed to provide an increased and perpetual source of state revenue for a program similar to Project STARS or Take Stock in Children. In 2007 and 2008, legislation[9] was proposed to create an endowment for the Florida Prepaid Tuition Scholarship Program. In the 2008 legislation, postsecondary scholarships were to be provided to economically disadvantaged students (those students that qualify for free or reduced-price lunch), if the student stays in school, graduates, and remains drug- and crime-free. State funds were to be evenly matched by the private sector (1-to-1 match). The Legislature was to appropriate funds for the endowment which were to be invested by the State Board of Administration with the earnings on the principal being appropriated for the scholarships from the Educational Enhancement Trust Fund. In 2007, there was a proposed $20 million appropriation from the Educational Enhancement Trust Fund to establish the endowment. In 2008, the legislation envisioned an appropriation from the Educational Enhancement Trust Fund with revenues provided from the tax on slot machines. For both years the proposed legislation was not enacted and no endowment funds were appropriated.

Modified Endowment Analysis

The purpose of this brief is to examine alternatives and modifications to the previous endowment proposals. The endowment concept has been expanded to include providing a Prepaid Tuition Scholarship to all Florida 6th graders who meet eligibility requirements. Student eligibility would include achieving a 2.0 GPA which is necessary for high school graduation. Also, all participating students are to have a mentor. The prepaid tuition contract provided for a scholarship could be for the following: a four-year university plan; 60 hours for a community college plan; 72 hours for the foundation community college plan;[10] or a 2+2 option which combines the community college and university plans.

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[5] s. 1009.984, F.S.
[6] s. 1009.981, F.S.
[7] $5,819,000, Ch. 2008-152, L.O.F., 2008-09 General Appropriations Act, Specific Appropriation 70.
[8] s. 1009.983, F.S.
[9] In 2007, Committee Substitute for Senate Bill 1052 by Education Pre-K – 12 Appropriations Committee and Senator Wise; in 2008, Senate Bill 372 by Senator Wise.
[10] The Prepaid Foundation's recommended plan includes tuition for two years at a community college and an extra semester of study.

For a 6th grader in 2007-08, the cost of the 4-year plan is $11,935; the community college plan (60 hours) is $4,121; the foundation community college plan (72 hours) is $4,946; and the 2+2 plan is $10,144.[11]

The following examines the potential number of eligible students, costs, and revenues for providing prepaid tuition scholarships through an endowment plan. It is assumed that invested endowment funds will accumulate for five years under one scenario and twenty years for another, with the first scholarships being provided in the 6th and 21st years, respectively.

Eligible Students

The number of 6th grade students is based on the full-time equivalent (FTE) forecast provided by the July 2008 Enrollment Estimating Conference with long term projections developed by the Office of Economic and Demographic Research (EDR). The number of economically disadvantaged students is based on the percentage of 6th grade students eligible for the free and reduced-price lunch program in 2007-08 or 51.69 percent. Two options have been chosen to identify economically disadvantaged at-risk students who are eligible to receive a scholarship.

<u>Option 1</u>: Provide a scholarship for any student from the economically disadvantaged 6th grade group who has a GPA of less than 2.0.[12] In this analysis, GPA information for students in grades 9 to 12 from 2006-07 is used as a proxy for 6th grade students for whom GPA information is not available.[13] For 2006-07, 108,816 students or 35.63 percent of the free and reduced-price lunch students in grades 9-12 had GPAs that were less than 2.0. The 35.63 percent is then used to estimate the eligible at-risk 6th grade students for this option.

<u>Option 2</u>: Provide a scholarship to any student from the economically disadvantaged 6th grade group who is either more than two years older than the age for his or her grade; has a 20 percent or greater rate of absenteeism; or has been expelled or suspended for more than three days. The count of public school students in 2006-07 who were characterized as at-risk based on meeting at least one of these criteria is 204,913, or 23.35 percent of the free and reduced-price lunch program students. The 23.35 percent is then used to estimate the eligible at-risk 6th grade students for this option.

The number of potential eligible students ranges from 24,245 in the 6th year for Option 2 to 50,877 students in the 21st year of the endowment investment for Option 1. The following table provides the estimated numbers of students eligible for scholarships at the 6th and 21st year.

Eligible 6th Grade Students at the 6th and 21st Years based on Options 1 and 2

	6th year	21st year
Estimated Total 6th Grade Students	200,876	276,222
Free/Reduced-price Students (51.69 percent of Total)	103,833	142,779
Option 1 Students (35.63 percent of Free/Reduced)	36,999	50,877
Option 2 Students (23.35 percent of Free/Reduced)	24,245	33,339

Cost ("Funds Needed")

For both options, the cost of a scholarship for the foundation community college plan (72 hours) and the 2+2 university/community college plan[14] is calculated using the 2007-08 prices for each which is then escalated by 6 percent

[11] Available at http://www.floridaprepaidcollegefoundation.com.
[12] Required for high school graduation, s. 1003.428, F.S.
[13] The Florida Department of Education does not currently maintain GPA information for 6th grade students and suggested the use of GPA data for grades 9 to 12 as the most viable proxy.
[14] The most frequently used plan for the STARS program and the Take Stock in Children program.

and 6.25 percent,[15] respectively. It is assumed that the state will provide 50 percent of the match for the scholarship. The cost, or "funds needed," is then determined for the total number of eligible at-risk 6th grade students for each of the two options at the estimated prepaid plan price when the endowment funds are withdrawn for scholarships. The scholarship costs range from $85.1 million for the foundation community college plan for Option 2 at-risk students in the 6th year of the endowment to $921.8 million for the 2+2 plan for Option 1 at-risk students in the 21st year. Funds needed for scholarships will increase over time because the forecast of students and the estimated prepaid plan prices increase. The 2+2 plan will always generate greater "funds needed" for each option because it is the more expensive plan.

Revenues ("Revenue Available")

Proposed revenue sources for the endowment have been slot machine tax revenue and a designated percentage of lottery proceeds.

To calculate potential funding available ("Revenue Available") for scholarships to compare with the cost of the scholarships, or "funds needed," for the two options, the following five revenue options have been used: lottery revenues at 2 percent, lottery revenues at 5 percent, lottery revenues at 10 percent, slot machine revenue at 50 percent and slot machine revenue at 100 percent. Lottery and slot machine revenues have been projected for a 20-year period by EDR based on the most recent estimating conference results.[16] For the calculation, it is assumed that each year an annual appropriation is made for the endowment from lottery or slot machine revenue. Earnings on the endowment principal are calculated at 6 percent[17] annually.

Estimated revenues available for scholarships range from $9.9 million for lottery at 2 percent of proceeds in the 6th year of the endowment to $668.8 million for slot machine revenues at 100 percent of proceeds in the 21st year. The least amount of revenue is generated by lottery at 2 percent of proceeds; the most is provided by the slot machines tax at 100 percent of proceeds. The revenue provided from the lottery at 10 percent of proceeds is similar to slot machines revenue at 50 percent of proceeds. The 2 percent of lottery revenue proceeds option provides the least amount of "revenue available," yet it will still grow to a balance in 20 years of $608.5 million if scholarships are awarded beginning in the 6th year, or greater than $1 billion if scholarships are initiated in the 21st year. For the slot machines tax at 100 percent of proceeds, if scholarships are not awarded until the 21st year, the endowment will grow to $11.1 billion.

Comparison of Revenue Available to Funds Needed

The results of the cost for eligible students and revenue calculations are compared in the following table. The "Revenue Available" calculation for each of the five revenue options is compared with the "Funds Needed" for scholarships based on the previous cost calculations for Option 1 and Option 2 at-risk students using either the foundation community college plan or the community college/university 2+2 plan.

[15] Estimated growth rates suggested by staff for the Florida Prepaid Board.
[16] Lottery Estimating Conference in July 2008, Slot Machine Conference in February 2008.
[17] Estimate suggested by the Office of Demographic Research based on a combination of long and short term rates used by the State Board of Administration for the Florida Retirement System.

Prepaid Tuition Scholarship Endowment Scenarios
Comparison of Funding Need for At-risk Student Groups to Revenues from Alternate Sources
$ in Millions

	Revenue Source	**Lottery**						**Slot Machine Tax**			
	Percent Appropriated for Endowment	2%		5%		10%		50%		100%	
	1st Withdrawal Year	6 Years	21 Years	6 Years	21 Years	6 Years	21 Years	6 Years	21 Years	6 Years	21 Years
		-1-	-2-	-3-	-4-	-5-	-6-	-7-	-8-	-9-	-10-
1	**GPA Less than 2.0**										
	Foundation CC Plan										
	Revenue Available	$9.9	$64.9	$24.7	$162.2	$49.5	$324.5	$44.6	$334.4	$89.3	$668.8
	Funds Needed	$129.8	$427.7	$129.8	$427.7	$129.8	$427.7	$129.8	$427.7	$129.8	$427.7
	Surplus/Shortfall(-)	-$119.9	-$362.8	-$105.1	-$265.5	-$80.3	-$103.2	-$85.2	-$93.3	-$40.5	**$241.1**
	2 +2 Plan										
	Revenue Available	$9.9	$64.9	$24.7	$162.2	$49.5	$324.5	$44.6	$334.4	$89.3	$668.8
	Funds Needed	$270.0	$921.8	$270.0	$921.8	$270.0	$921.8	$270.0	$921.8	$270.0	$921.8
	Surplus/Shortfall(-)	-$260.1	-$856.9	-$245.3	-$759.6	-$220.5	-$597.4	-$225.4	-$587.4	-$180.7	-$253.1
2	**Three At-risk Factors**										
	Foundation CC Plan										
	Revenue Available	$9.9	$64.9	$24.7	$162.2	$49.5	$324.5	$44.6	$334.4	$89.3	$668.8
	Funds Needed	$85.1	$280.3	$85.1	$280.3	$85.1	$280.3	$85.1	$280.3	$85.1	$280.3
	Surplus/Shortfall(-)	-$75.2	-$215.4	-$60.3	-$118.0	-$35.6	$44.2	-$40.4	**$54.1**	**$4.2**	**$388.5**
	2 +2 Plan										
	Revenue Available	$9.9	$64.9	$24.7	$162.2	$49.5	$324.5	$44.6	$334.4	$89.3	$668.8
	Funds Needed	$176.9	$604.1	$176.9	$604.1	$176.9	$604.1	$176.9	$604.1	$176.9	$604.1
	Surplus/Shortfall(-)	-$167.0	-$539.2	-$152.2	-$441.8	-$127.5	-$279.6	-$132.3	-$269.7	-$87.7	**$64.7**

Assumptions:
1. Both at-risk options are a subset of the number of public school 6th grade students eligible for free/reduced-price lunch as provided by the DOE, survey 3, 2007-08.
2. For the #1 at-risk group, GPA data for grade 9 to 12 students from DOE survey 5, 2006-07 is used as a proxy for 6th grade GPAs which are not available.
3. For the #2 at-risk group, eligible students must be at least two years over the age for their grade, have been absent for more than 20 percent of the year, or expelled or suspended for more than three days. Data is from DOE survey 5, 2006-07.
4. The Prepaid Plan prices increase by 6 percent annually from the 2007-08 prices for the foundation community college plan and 6.25 percent for the university/community college 2+2 plan.
5. 6th grade FTE are based on the July 2008 enrollment estimating forecast and forecasted through year 21 by EDR.
6. The rate of return for investment of endowment contributions is 6 percent.
7. State match for the plans is 50 percent.

In the table, "Revenue Available" and "Funds Needed" are shown for the first year of withdrawal only: either the 6th or the 21st year. However, the trend of surplus or shortfall of funds in subsequent years is similar. For Option 1, students with GPAs of less than 2.0, only one of the five selected revenue sources, slot machine proceeds at 100 percent, would provide sufficient funds for the foundation community college plan and that is for scholarships awarded beginning in the 21st year only. None of the five revenue options would fund the 2+2 plan for withdrawal in the 6th or the 21st year. With the exception of slots machine proceeds at 100 percent for withdrawal in the 21st year, revenues generated by the endowment are insufficient to support either the lower cost foundation community college plan or the higher cost 2+2 community college/university plan for a potential target student group that ranges from 37,000 in the 6th year to 51,000 students in the 21st year of endowment investment.

For Option 2, based on the three at-risk criteria (behind grade for age, greater than 20 percent absences, or three or more suspensions/expulsions), for either the lottery revenue proceeds option at 10 percent or the slot machine revenue option at 50 percent,[18] sufficient funds are available in the 21st year for anticipated scholarships (33,339 students) under the less costly foundation community college plan. Also, the slot machine revenue option at 100 percent, for withdrawal in both the 6th year and 21st year for scholarships (24,245 and 33,339 students respectively) would satisfy the need for scholarships for the foundation community college plan. For the 2+2 community college/university prepaid plan, only the 21st year withdrawal of invested slot machine revenues at 100 percent would provide sufficient endowment funds for potential scholarships. All other revenue options for the more expensive 2+2 plan for Option 2 did not provide sufficient revenues to fund all potential participants.

To summarize, for all Option 1 at-risk students (GPAs less than 2.0), the foundation community college plan could be funded with slot machine revenues at 100 percent of proceeds in the 21st year. The more costly 2+2 plan for this option cannot be fully funded with any of the revenue scenarios provided. For Option 2 students, identified with the three at-risk factors, the foundation community college plan could be funded with 10 percent of lottery or 50 percent of slots revenue proceeds in the 21st year, or 100 percent of slot machine revenue proceeds in the 6th or 21st year. The 2+2 plan can only be funded for this option with slots revenue at 100 percent of proceeds in the 21st year.

Other Options and Issues

Many other revenue options[19] and target student groups for at-risk factors could be selected. To mitigate cost, options using different at-risk criteria may be less costly if they produce fewer eligible students. For example, from Table 1, if only the "Greater than 2 Years Over Age for Grade" criteria is used to select at-risk 6th grade students to participate, 6.55 percent or 6,801 reduced/free lunch students would be eligible. Using lottery at the 5 percent of proceeds option, revenues generated after five years of endowment investment would be sufficient to fund all of the eligible students.

In addition, in this issue brief, all potential eligible students are assumed to participate and sign a contract for a scholarship. In reality, participation and continued eligibility would not be at 100 percent. For example, only 84 percent of students eligible for Bright Futures use the scholarship. Also, 86 percent of STARS students maintain eligibility by meeting program requirements (14 percent attrition). Another option would be to provide the community college 60 hour prepaid tuition plan which is less costly[20] than the two plans used in this analysis. Applying these usage/attrition factors and using the community college plan would make scholarships for the Option 2 6th grade students marginally affordable for either the lottery at 10 percent of proceeds option or slot machine revenue at 50 percent of proceeds after five years of endowment investment.

Another approach would be to limit the number of prepaid tuition scholarships to the amount of endowment interest revenue available for withdrawal. Such is the case with the current state appropriation of $5.8 million for the STARS program which essentially defines/limits the number of scholarships and the amount of private matching funds necessary. In Table 2, for the endowment funded with lottery at 2 percent of proceeds, $9.9 million is available for scholarships in 2013-14 (6th year). $9.9 million would provide scholarships for 2,821 at-risk 6th graders for the foundation community college plan in that year. Scholarships and eligibility within program requirements would be determined on a discretionary basis. However, this method would then potentially not provide scholarships to all eligible 6th grade at-risk students.

Due to current revenue constraints, any new potential endowment program would have to compete for scarce state funding. Additionally, building an endowment that provides scholarships in the 6th or 21st year is a lengthy time frame for program implementation. Another potential issue is raising the required private match. For the STARS program, the maximum expected private sector contribution that may be achieved is thought to be roughly $20 million per year,[21]

[18] These two revenue options produce similar revenue streams.

[19] Revenue options involving Indian Gaming, added Lottery products, and voluntary contributions by individuals on their utility bills were not evaluated for this issue brief due to uncertainty over methodologies to estimate the potential revenue for these options.

[20] In 2007-08, the Community College plan price was $4,121.

[21] Suggested by staff with the Florida Prepaid Board.

which would be less than 50 percent of the match funds needed for most of the options presented in this analysis. Finally, the endowment investment options may be limited over the next few years due to the current national financial/credit problems.