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# Justification Review



February 2003

Report No. 03-16

## Office of Student Financial Assistance Generally Performs Well, But Performance Measurement and Default Prevention Should Be Improved

### *at a glance*

The Department of Education's Office of Student Financial Assistance has accumulated approximately \$30.9 million in net earnings from its federal loan guaranty operations. At a minimum, the Legislature could appropriate \$7.9 million of these earnings to support state financial aid initiatives next year.

The office has not collected or reported data for most of its legislative performance measures, which hinders the assessment by the Legislature of financial assistance policies. The Legislature should consider adding measures to assess college affordability as well as office performance in administering financial aid programs.

Office customers express a high level of satisfaction with services, and productivity as a guaranty agency has improved significantly over the past two years. However, the office needs to improve its performance in preventing students from defaulting on their loans.

Restructuring the office's guaranty agency function as an entrepreneurial non-state entity or exempting it from certain administrative requirements could increase its efficiency and effectiveness and could produce additional revenues to support state financial aid initiatives. The financial benefit of continuing the office's guaranty agency function could be eliminated if its Federal Student Loan Reserve Fund balance drops below a certain level, but this is unlikely to happen for many years.

### Scope

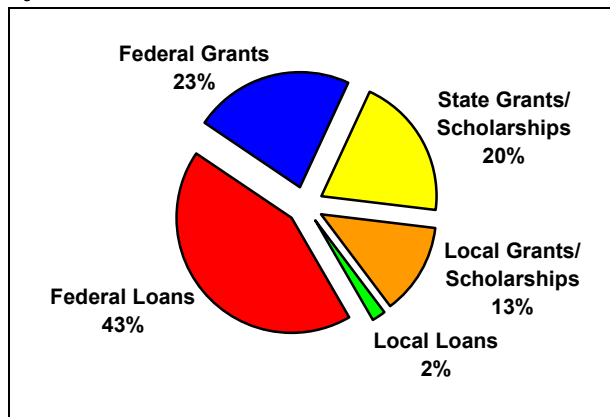
This is one of several reports that present the results of our program evaluation and justification review of Florida's Student Financial Assistance Program. The Office Student Financial Assistance (OSFA) in the Department of Education administers this program. Section 11.513, *Florida Statutes*, directs the Office of Program Policy Analysis and Government Accountability to complete a program evaluation and justification review of each state agency that is operating under a performance-based program budget.

This report evaluates the program's performance measures, customer satisfaction with services provided by OSFA, and options to improve OSFA's competitiveness as a guaranty agency for the federal student loan program. A series of reports will assess the extent to which the state's financial aid policies are meeting the legitimate financial needs of Florida students. Two others will examine the benefit of the Bright Futures Scholarship Program by assessing its effect on the academic preparation of high school students. These reports collectively cover the statutory requirements for a justification review.

## Background

Florida students attending public institutions received approximately \$1.26 billion in financial aid during 2000-01. The federal government is the largest provider of financial aid.<sup>1</sup> Almost two-thirds (66%) came from the federal government in the form of student loans (43%) and grants (23%). (See Exhibit 1.) State financial aid represented a smaller portion of the total aid received by Florida students, accounting for 20% (\$252 million) of all aid received in 2000-01. State financial aid programs provide the Florida Legislature with a mechanism to address its unique priorities and policy goals for postsecondary education.

### Exhibit 1 Federal Loans and Grants Accounted for 66% of the \$1.26 Billion in Financial Aid Received by Florida Students in 2000-01



Note: Percentages total more than 100 due to rounding.  
Source: OPPAGA analysis of Department of Education data.

The Office of Student Financial Assistance administers a wide variety of state aid programs. The office assisted 218,563 Florida students in 2001-02. The largest is the Bright Futures Scholarship Program, which assisted 98,294 students based on academic achievement in high school. Other programs, such as the Florida Student Assistance Grant, assist students demonstrating financial need. Exhibit 2 lists state financial aid programs, which are described in Appendix B.

<sup>1</sup> Fiscal Year 2001-02 data was not available at the time we were conducting this analysis.

### Exhibit 2 Florida Has Established a Wide Variety of State Financial Aid Programs

| State Financial Aid Program  | Students Served in FY 2001-02 |
|--|-------------------------------|
| <b>Need-Based</b>  | <b>80,940</b>                 |
| <ul style="list-style-type: none"> <li>Florida Student Assistance Grant</li> <li>Florida Work Experience Program</li> <li>Florida Fund for Minority Teachers</li> <li>Jose Marti Scholarship Challenge Grant</li> <li>Mary McLeod Bethune Scholarship</li> <li>Latin American Caribbean Basin Scholarship Program</li> <li>African Afro-Caribbean Scholarship Program</li> <li>Rosewood Family Scholarship</li> <li>Seminole and Miccosukee Indian Scholarships</li> </ul> |                               |
| <b>Merit-Based</b>   | <b>98,294</b>                 |
| <ul style="list-style-type: none"> <li>Bright Futures Scholarship Program</li> </ul>   |                               |
| <b>Professional Aid</b>  | <b>5,464</b>                  |
| <ul style="list-style-type: none"> <li>Critical Teacher Shortage Programs</li> <li>Critical Occupational Shortage Programs</li> </ul>  |                               |
| <b>Special Interest</b>  | <b>33,865</b>                 |
| <ul style="list-style-type: none"> <li>Florida Resident Access Grant</li> <li>Ethics in Business Scholarships</li> <li>Scholarships for Children of Deceased or Disabled Veterans</li> <li>Robert C. Byrd Honors Scholarship Program (federally funded)</li> <li>Florida Teacher Scholarship - Chappie James</li> <li>Florida Teacher Scholarship - Forgivable Loan</li> </ul>   |                               |

Source: Office of Student Financial Assistance.

The Department of Education, through OSFA, also serves as Florida's designated guaranty agency for the Federal Family Education Loan Program (the federal loan program). The federal program makes various types of low cost education loans to students and parents through private lenders, such as banks. The guaranty agency protects lenders from loss in the event of the borrower death, disability, bankruptcy, or default. In Fiscal Year 2001-02, OSFA guaranteed approximately \$1.3 billion in student loans to 316,287 borrowers.<sup>2</sup> As shown in Exhibit 3, the OSFA guarantees four types of federal category students.

<sup>2</sup> OSFA's total annual loan volume includes guarantees for students enrolled in Florida schools, students enrolled in schools in other states, and individuals no longer enrolled in college (consolidation loans).

In addition to OSFA assistance, Florida students also are eligible for aid programs administered by community colleges and universities that are funded through financial aid fees, fee waivers granted by these institutions, and state matching programs such as the Dr. Philip Benjamin Matching Grant Program for community colleges.<sup>3</sup> Florida students also receive loans through other guaranty agencies operating in Florida.

### **Exhibit 3**

#### **The Office of Student Financial Assistance Guarantees Four Major Types of Federal Loans**

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**Subsidized Stafford Loans** are awarded to undergraduate and graduate students who demonstrate financial need. Because the U.S. Department of Education subsidizes the interest, borrowers are not charged interest while they are enrolled in school at least half-time and during grace and deferment periods.

**Unsubsidized Stafford Loans** are awarded to undergraduate and graduate students regardless of financial need. Borrowers are responsible for paying the interest that accrues during any period.

**PLUS Loans** allow parents to borrow on behalf of their dependent undergraduate children who are enrolled at least half-time. Borrowers are responsible for the interest that accrues on PLUS Loans during any period.

**Consolidation Loans** allow any eligible borrower to combine one or more federal education loans into one new loan to facilitate repayment.

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Source: U.S. Department of Education.

### ***Program organization***

The Office of Student Financial Assistance is located in the Department of Education, under the direction of the chief financial officer for the State Board of Education. (See Appendix C for an organization chart of the department.) The office has 245 full-time equivalent (FTE) employees and is organized around two major program areas: administration of the federal loan program, and state scholarships and grants.

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<sup>3</sup> Section 1011.85, *F.S.*, establishes the Dr. Philip Benjamin Matching Grant Program for Community Colleges to encourage private support in enhancing community colleges by providing the community college system with the opportunity to receive and match challenge grants. Grant funds can be used for (a) scientific and technical equipment, (b) scholarships, loans, or need-based grants, and (c) other activities that will benefit future students as well as students currently enrolled at the community college, will improve the quality of education at the community college, or will enhance economic development in the community.

**Federal loan program.** OSFA's largest program area is the federal loan program, which accounts for 82% (201) of its employees. Loan program responsibilities include processing loan applications, customer service, recovering defaulted loans, and default aversion services to delinquent borrowers. Office service methods have changed over time. Prior to Fiscal Year 1999-00, OSFA contracted out most major loan services to private vendors such as loan origination, customer service, recovery, default aversion (pre-claims), and data management. OSFA personnel were mainly involved in contract monitoring. However, in July 1999, the office assumed primary responsibility for all services except recoveries and default aversion. OSFA made this decision after reviewing proposals that included higher costs but did not adequately address the office's requirements for technological improvements to the loan database system.<sup>4</sup> (See Exhibit 4 for a list of OSFA's loan program services.)

**State grant and scholarship programs.** OSFA has 44 FTE employees who develop and disseminate program policies, provide technical assistance to institutions and students, and maintain a comprehensive student financial aid database. Activities for the individual state programs vary based on how each program is organized. (See Appendix D.) For centralized programs such as Bright Futures, OSFA processes applications, determines student eligibility, generates vouchers for program disbursements, and authorizes institutions to disburse appropriate program funds. However, for decentralized programs like the Florida Student Assistance Grant, the institutions that students attend are primarily responsible for performing these functions. OSFA tracks program disbursements for decentralized programs and monitors participating institutions to ensure that statutory requirements are met.

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<sup>4</sup> This information is based on an internal Department of Education memorandum dated November 7, 2001, that provides background information about the decision to discontinue contracting for student loan services.

**Exhibit 4**  
**OSFA's Loan Program Responsibilities Include Loan Origination, Customer Service, Default Prevention, and Loan Recovery**

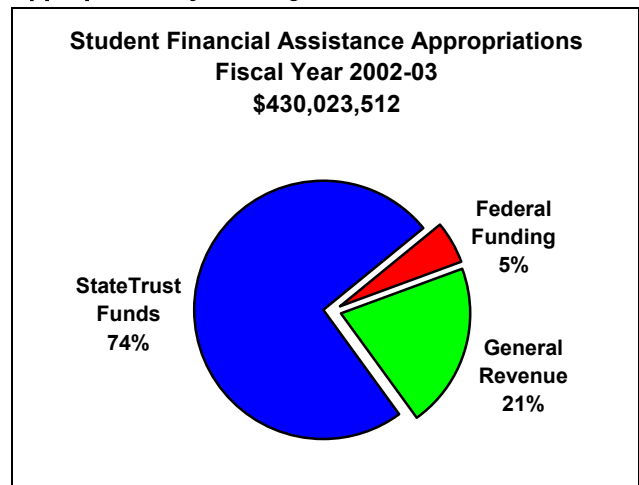
| Federal Loan Program Responsibilities or Services   | Primary Method for Providing Service |            |
|---|--------------------------------------|------------|
|   | Prior to 1999                        | Since 1999 |
| <b>Loan origination:</b> process loan applications submitted for guarantee and maintain system loan records.  | Contracted                           | In-house   |
| <b>Financial operations:</b> perform functions related to federal and financial reporting, purchasing and budgeting, and processing receipts and disbursements.   | In-house                             | In-house   |
| <b>Customer service:</b> maintain a call center to assist borrowers with a variety of needs related to their loans.   | Contracted                           | In-house   |
| <b>Default prevention:</b> provide workshops for institutional staff and develop and distribute default prevention materials. Default prevention is designed to increase student awareness about financing their education and includes all activities conducted prior to a borrower becoming delinquent in repaying his or her loan. | Contracted                           | In-house   |
| <b>Default aversion:</b> perform default aversion activities once borrowers are at least 60 days delinquent in repaying their loans. These activities consist mainly of locating borrowers and providing counseling services to advise them of their options to avoid default.  | Contracted                           | Contracted |
| <b>Claims:</b> review and approve lender claim payment requests for defaulted loans   | Contracted                           | In-house   |
| <b>Recovery:</b> perform collection activities (i.e., locating students, garnishments, etc.) for defaulted student loans and monitor the performance of contracted collection agencies.   | Contracted                           | Contracted |
| <b>Program review, training, and outreach:</b> conduct program reviews of program lenders and schools, provide regulatory interpretations and program training to schools and lenders, and promote OSFA programs to institutions and the general public.  | In-house                             | In-house   |
| <b>Data management:</b> provide operations support and system programming and enhancements.   | Contracted                           | In-house   |

Source: Office of Student Financial Assistance.

**State appropriated resources**

The Florida Legislature appropriated \$430 million for student financial assistance programs in Fiscal Year 2002-03. This excludes federal student loan and grant programs, such as Pell Grants, which are not subject to appropriation by the Legislature. As shown in Exhibit 5, most (95%) of the funding appropriated by the Legislature comes from state revenue sources, including general revenue, the Student Financial Assistance Trust Fund, and lottery funds. The Bright Futures Scholarship Program, with an appropriation of \$218 million, is the largest state-funded financial aid program. The second largest program is the Florida Student Assistance Grant with an appropriation of \$85 million.

**Exhibit 5**  
**State Revenues Account for 95% of \$430 Million in Student Financial Assistance Appropriated by the Legislature**



Source: Office of Student Financial Assistance.

Most (94%) of the total funding appropriated by the Legislature for the financial assistance program is used to provide scholarship and grant awards to students. The Legislature appropriated \$19.9 million to OSFA for program administration in Fiscal Year 2002-03. The majority (\$16.1 million, or 81%) of this administrative funding comes from federal funds that OSFA earns for its operation as a guaranty agency.

**Guaranty agency funding**

OSFA earns federal administrative funds under a performance-based system that allows guarantors to retain any net earnings from administering the federal loan program. This system was established in 1998. Prior to that date, the federal government restricted use of guaranty funds.

**Federal Student Loan Reserve Fund revenues are used to pay for lender claims on defaulted loans.** As a guaranty agency, OSFA must reimburse lenders for loans that are not repaid. OSFA maintains the Federal Student Loan Reserve Fund, which is property of the federal government, to pay lender claims on defaulted loans. This reserve fund receives revenues from reinsurance payments and interest income. The federal government reinsures or reimburses the fund for claims. Reinsurance rates vary based upon OSFA’s default rate for its portfolio of guaranteed loans and based upon the date the loan was disbursed as follows:

- 80% – 100%, if disbursed before October 1, 1993;
- 78% – 98%, if disbursed between October 1, 1993 and September 30, 1998; and
- 75% – 95%, if disbursed on or after October 1, 1998.

OSFA’s default rate has always been at a level that allowed it to receive the maximum reinsurance rate for each time period. The office may charge an insurance fee of up to 1% when it guarantees a loan, which would go into the reserve fund. However, OSFA has not charged the fee since July 2000, which financially benefits borrowers.

**Loan Operating Fund revenues are used for program administration and other financial aid-related activities selected by the guarantor.** OSFA also administers the Loan Operating Fund, which is a state trust fund. This trust fund pays for activities associated with administering the federal loan program. These activities include application processing, lender and school training, default aversion activities, financial aid awareness and outreach activities, default prevention, and default collections activities. However, federal law also permits guaranty agencies to use operating funds for “other student financial aid-related activities for the benefit of students, as selected by the guaranty agency.”

The Loan Operating Fund receives revenues earned by the office under the federal performance funding system. As described in Exhibit 6, the federal government pays guarantors according to their performance in the four major areas of loan servicing.

**Exhibit 6  
OSFA Generates Revenue in Four Major Areas of Student Loan Servicing**

| Sources of Revenue for OSFA as a Guaranty Agency   | Amount Generated in Fiscal Year 2001-02 |
|--|---|
| <b>Revenues for Loans in Good Standing (Not Delinquent or in Default)</b>  |   |
| <b>Loan processing and issuance fees:</b> The federal government pays OSFA a one-time loan processing and issuance fee of 0.65% based on the original principal amount of new loans guaranteed and disbursed under the federal loan program. This fee amount will drop to 0.40% beginning October 1, 2003.   | \$ 4,737,088                            |
| <b>Loan account maintenance fees:</b> The federal government pays OSFA (quarterly) an account maintenance fee of 0.10% of the original principal amount of outstanding guaranteed loans.   | 4,350,341                               |
| <b>Revenues for Loans That Become Delinquent or in Default</b>   |   |
| <b>Default aversion fees:</b> The federal government pays OSFA for default aversion activities on delinquent loans when lenders request aversion assistance. At the time the office receives a request from a lender for default aversion assistance, a fee equal to 1% of the principal and accrued interest on the loan is paid from the federal fund to the office’s operating fund. If the loan subsequently defaults, 1% of the principal and interest of the loan at the time of default must be refunded to the federal fund. | 3,637,438                               |
| <b>Loan recovery and collections:</b> If the office begins collecting on a defaulted loan, the federal government allows it to keep 18.5% to 24% of each defaulted borrower payment for program administration (operating fund).   | 16,070,660                              |

Source: Office of Student Financial Assistance.



## Program Benefit

The Student Financial Aid Program provides a public benefit and should continue to operate. The program eases the financial burden of attending college by helping students and their families to pay for the cost of attendance. By doing so, the program helps to ensure that financial obstacles do not prevent students from achieving a college education. Individuals with a college education typically have higher incomes, live longer, and provide a higher quality of life for their children.

The two future companion OPPAGA reports will examine more closely the specific public benefit of the financial aid program: (1) the extent to which current financial aid policies make higher education affordable for different types of students and (2) the effect of the Bright Futures Scholarship Program on improving academic achievement of high school students.

### *OSFA's guaranty agency function produces additional revenue that can be used to support state financial aid initiatives*

Another benefit of the program is that the Office of Student Financial Assistance provides revenue for state financial aid initiatives through earnings generated from federal loan program administration. Since 1999, the office and the Legislature have used approximately \$4.4 million from the Loan Operating Fund to support state financial aid programs. Specifically, the office used \$1.9 million from the fund to purchase computer-programming support and to hire personnel to support the Bright Futures Program. In addition, the 2002 Legislature appropriated \$2.5 million from the fund for the Florida Student Assistance Grant.

In addition to the state program funding discussed above, the office has generated \$30.9 million in net earnings (excess revenues over operating expenditures) from its operation as a guaranty agency. The office has yielded approximately \$10 million annually in net earnings during the last two fiscal years. Exhibit 7 shows the office's guaranty agency operating revenues and expenses for the last three years.

### Exhibit 7 OSFA Has Generated \$30.9 Million in Net Earnings From Its Operation as a Guaranty Agency

|                     | 1999-00                         | 2000-01             | 2001-02             |
|---------------------|---------------------------------|---------------------|---------------------|
| Revenues            | \$18,764,647                    | \$33,471,385        | \$29,939,765        |
| Expenses            | 12,865,825                      | 21,378,091          | 19,828,187          |
| <b>Net Earnings</b> | <b>\$ 5,898,822</b>             | <b>\$12,093,294</b> | <b>\$10,111,578</b> |
| <b>Fund Balance</b> | <b>\$ 8,738,877<sup>1</sup></b> | <b>\$20,832,171</b> | <b>\$30,943,749</b> |

<sup>1</sup> The office had a \$2,840,055 fund balance at the beginning of Fiscal Year 1999-00.

Source: OPPAGA analysis of the office's financial statements.

**The Loan Operating Fund has a minimum of \$7.9 million in net earnings available for appropriation by the 2003 Legislature.** Since OSFA is performance-funded and primarily focused on administering the federal loan program, the amount of guaranty agency revenue available to support state financial aid initiatives will vary each year. Although the total Loan Operating Fund balance is \$30.9 million, the office needs to maintain a minimum balance for contingency purposes, which according to OSFA administrators should be approximately \$10 million. Also, administrators estimate an additional \$13 million may be needed to pay \$3 million in rebates on default aversion fees, and an estimated \$10 million for the implementation of a new computerized loan data system.

After taking OSFA's estimates into consideration, the Loan Operating Fund still has a minimum of \$7.9 million in net earnings that the 2003 Legislature could appropriate to support state financial aid programs including the Florida Student Assistance Grant. The Legislature also could appropriate more of the net earnings depending on legislative priorities and the justification for upgrading OSFA's computerized loan data system.

## Program Performance and Accountability

The program's legislative measures are not useful for assessing its performance due to the lack of reported data. Additional performance measures also need to be developed. However, other available data shows that OSFA is

generally performing well but should take steps to address the high default rate for federal student loans. The financial benefit of continuing OSFA’s guaranty agency function would be jeopardized if its reserve fund balance drops below a certain level.

***OSFA has not reported data for most of its legislative performance measures***

The program’s legislative performance measures cannot be used to evaluate its performance because the office has not collected and reported data for most of the measures. Although the Legislature established eight performance measures for the program, OSFA has reported only data for three of these measures as of

December 2002. In addition, two of the three measures with reported data are misleading because the data used to calculate them does not match the corresponding measure listed in the Appropriations Act. Department of Education administrators stated that the reporting delays have been primarily caused by continuing discussion over the appropriateness of the measures for evaluating financial aid programs.

To address these issues, OSFA should report the data for the five measures that have not yet been reported. The office also should correct the data reported for the two measures that contain misleading information. See Exhibit 8 for a summary of our concerns about the current legislative performance measures.

**Exhibit 8  
OSFA Only Reported Data for Three of Its Legislative Performance Measures, and Two of These Measures Contain Misleading Information**

| Performance Measure  | 2001-02 | 2002-03 | OPPAGA Comment  |
|--|---------|---------|---|
| Percent of high school graduates who successfully completed the 19 core credits (Bright Futures)   | 63%     | 63%     | <i>The data reported by the office for this measure is misleading.</i> OSFA did not report the college preparation of all high school graduates. Instead, the office only reported the percentage of initial Bright Futures Program applicants who completed at least 15 college prep academic courses. OSFA should collect and report data for ALL high school graduates   |
| Percent of high school graduates attending Florida postsecondary institutions (Bright Futures)   | 52%     | 52%     | <i>The data reported by the office for this measure is misleading.</i> OSFA did not report the continuation rates of all high school graduates. Instead, the office reported the percentage of students initially eligible for the Bright Futures program who received a program disbursement. The office should report the continuation rates for ALL high school graduates. Assessing high school to college continuation rates is useful when considering postsecondary “access” issues. |
| Number of Bright Futures recipients  | 100,397 | 111,528 | This is an appropriate output measure. The number of Bright Futures Program recipients is increasing.   |
| Retention rate of FTIC award recipients, by delivery system, using a four-year rate for community colleges and a six-year rate for universities (Bright Futures)                   | TBD     | TBD     | <i>OSFA has not yet reported data for this measure.</i> The measure could be used to assess whether Bright Future students persist in college.  |
| Graduation rate of FTIC award recipients, by delivery system (Bright Futures)  | TBD     | TBD     | <i>OSFA has not yet reported data for this measure.</i> The measure could then be used to assess whether Bright Future students graduate from college.  |
| Retention rate of FTIC award recipients, by delivery system, using a four-year rate for community colleges and a six-year rate for universities (Florida Student Assistance Grant) | TBD     | TBD     | <i>OSFA has not yet reported data for this measure.</i> The measure could be used to assess whether students receiving a Florida Student Assistance Grant persist in college.   |
| Graduation rate of FTIC award recipients, by delivery system (Florida Student Assistance Grant)  | TBD     | TBD     | <i>OSFA has not yet collected and reported data for this measure.</i> The measure could be used to assess whether students receiving a Florida Student Assistance Grant graduate from college.  |
| Percent of recipients who, upon completion of the program, who work in fields in which there are shortages (Critical Teacher Shortage Forgivable Loan Program)                     | TBD     | TBD     | <i>OSFA has not yet collected and reported data for this measure.</i> The office should collect and report data for this measure. This measure could be used to assess whether the Critical Teacher Shortage Loan Program is helping to increase the supply of teachers in Florida.   |

Source: OPPAGA analysis of legislative performance measures.

**The Legislature should consider adding several additional performance measures for the financial aid program.** The current measures, if correctly reported, could be used to assess important performance issues related to the state’s financial aid policies. However, the measures do not assess the extent to which Florida’s financial aid policies are meeting the state’s goal of ensuring college affordability. In addition, none of the measures can be used to evaluate the performance of the Office of Student Financial Assistance. To address these issues, the Legislature should consider adding a performance measure for college affordability and several measures that could be used to assess the office’s performance in administering financial aid programs. (See Exhibit 9 for a description of these proposed measures.)

***OSFA’s loan program productivity significantly improved over the last few years, but its loan default rate remains high***

OSFA’s productivity in guaranteeing loans and recovering defaulted student loans improved significantly over the last few years. These

improvements have allowed it to generate more revenue and increase its net earning margin. However, the office has one of the highest default rates in the nation, which it should address by implementing its long-delayed default prevention plan.

**OSFA’s annual loan volume has increased.** The office increased the annual number of loans that it guaranteed from 191,005 in 1997-98 to 316,287 in 2001-02. (See Exhibit 10.) This represents a 66% increase in the number of loans and is an indicator of the office’s performance. This is because other guaranty agencies also operate in Florida and so OSFA must compete for customers based in part on its services. OSFA administrators attributed this increase to improved customer service, which included establishing new positions in five regional locations to assist schools and lenders in processing student loans.

**Exhibit 9**

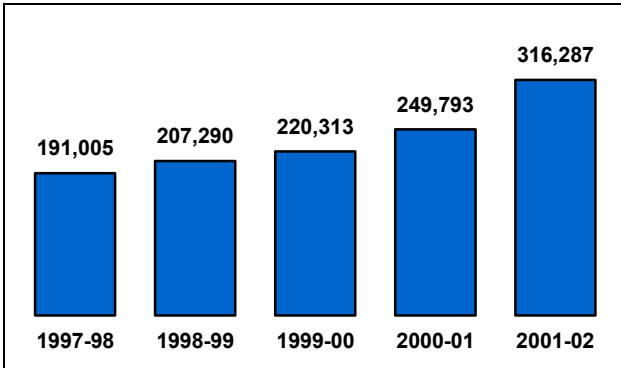
**The Legislature Should Consider Adding a Measure for College Affordability and Four Measures That Provide Information About OSFA’s Performance**

| Recommended Performance Measures   | Rationale for Adding Measure   |
|--|--|
| The percentage of unmet financial need for students (as a percentage of the cost of attendance)  | The measure will provide the Legislature a tool for monitoring how its financial assistance policies are affecting college affordability for students in Florida. The measure would require colleges and universities to submit new data to the Department of Education. A companion OPPAGA report will provide performance information related to this issue. |
| The percentage of program customers stating they were satisfied with the services provide by the Office of Student Financial Assistance  | The measure would help the Legislature monitor whether the office is meeting its customer’s needs. This is an important measure since OSFA is a service type organization.   |
| The total number and amount of loans guaranteed by the Office of Student Financial Assistance (fiscal year basis)                        | The measure would help the Legislature monitor the office’s productivity as a guaranty agency. Increased productivity could increase the amount of revenue available for state financial aid initiatives.  |
| The percentage of loans recovered or collected by the Office of Student Financial Assistance (as a percentage of total loans in default) | The measure would help the Legislature monitor the office’s productivity as a guaranty agency. Increased productivity could increase the amount of revenue available for state financial aid initiatives.  |
| The federally determined cohort default rate for the Office of Student Financial Assistance  | The measure would help the Legislature monitor the office’s effectiveness in helping borrowers to avoid defaulting on their student loans.   |

Source: OPPAGA analysis of legislative performance measures.



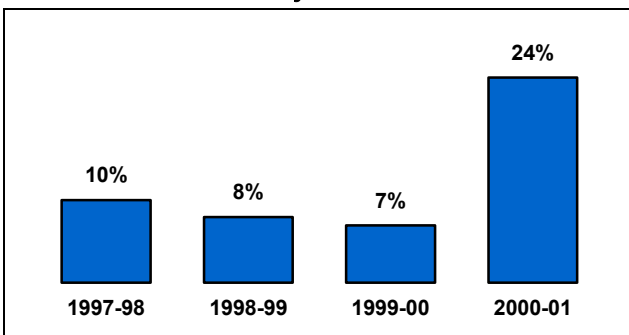
**Exhibit 10**  
**OSFA Significantly Increased Its Number of Guaranteed Student Loans Over the Last Several Years**



Source: Office of Student Financial Assistance.

**Loan recoveries have improved markedly.** The office also improved its performance in recovering defaulted student loans. OSFA more than doubled the percentage of loans that it recovered in 2000-01 over the three previous years. (See Exhibit 11.) The office recovered 24% of its defaulted loans in 2000-01 as compared to only 10% in 1997-98. OSFA administrators attributed this improved recovery to contracting with additional agencies to service student loans as well as a performance evaluation component that has been added to the contracts.

**Exhibit 11**  
**OSFA Experienced a Marked Improvement in Its Defaulted Loan Recovery Rate in 2001**



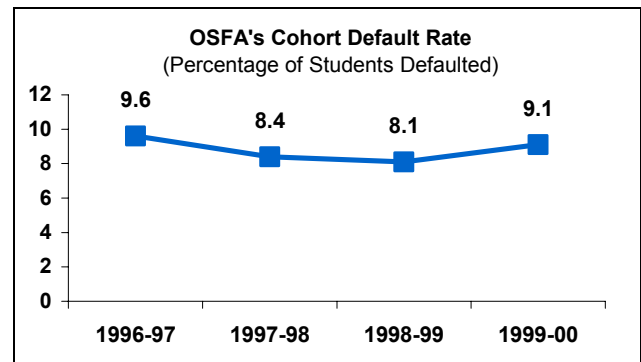
Source: Office of Student Financial Assistance.

The office evaluates its contracted collection agencies on a quarterly basis. These agencies attempt to locate delinquent borrowers and recover their loans through wage garnishment, loan consolidation, or getting the borrower to

begin regular payments. OSFA uses a performance evaluation system to score and rank the agencies based on the amount of loans recovered, number of complaints, and customer service issues. Agencies are then awarded a percentage of available accounts from OSFA based on how they ranked on the evaluation. The higher an agency ranks, the more accounts it will receive from the office. This provides an incentive for these agencies to increase the amount of loans recovered.

**OSFA's needs to improve its performance in preventing students from defaulting on loans.** OSFA has the highest cohort loan default rate (9.1%) in the nation among all guaranty agencies. The cohort default rate, which is calculated by the federal government, is the percentage of those borrowers who began repayment on loans during a particular fiscal year and then default within the same fiscal year or within the next fiscal year. As shown in Exhibit 12, the office's cohort loan default rate had been improving since 1996-97, but it worsened in the most recent year of available data (1999-00). Defaulting on a loan is bad for the individual borrower because of the negative effect on his or her credit history. In addition, high amounts of defaulted loans could affect OSFA's long-term ability to pay lender claims if the balance in its Federal Student Loan Reserve Fund gets below a certain level because of the high payouts for defaults.

**Exhibit 12**  
**OSFA's Cohort Loan Default Rate Worsened in 1999-00 After Improving During the Two Previous Years**



Source: Office of Student Financial Assistance.

Historically, the office has not focused on default prevention, which likely has contributed to its high default rate. Rather, OSFA’s strategy has been to focus more on providing default aversion services, which do not begin until a borrower is already delinquent in repaying his or her loans. OSFA’s high default rate indicates that this strategy has not been very successful in preventing borrowers from defaulting on their loans.

**OSFA has developed a default prevention plan, but has not fully implemented it yet.** OSFA has developed a comprehensive plan to improve default prevention, and it has \$7 million in interest earnings from its federal fund designated to implement the plan. The federal government approved both the plan and fund usage in August 2000. The plan outlines a number of important strategies for improving default prevention. These strategies include early awareness initiatives such as public service announcements, hiring additional personnel to provide default prevention services, conducting workshops with institutional personnel, early detection of high-risk borrowers, and contacting borrowers during their loan repayment grace period.

However, as of December 2002, OSFA has implemented only a few of the strategies identified in its plan. The office has hired a director for its default prevention unit, issued public service announcements, and arranged for default prevention workshops at different locations throughout the state. OSFA administrators conceded that most of the plan has not been implemented. The reasons cited for the delay were (1) turnover of key personnel; (2) the transition from outsourced to in-house loan program services slowed progress as the office worked to get all of its major services operational; and (3) the office has continued its strategy of focusing on default aversion services. These reasons do not negate the need for OSFA to take immediate steps to expedite the implementation of the plan.

***The financial benefit of continuing OSFA’s guaranty agency function would be jeopardized if its reserve fund balance drops below a certain level***

Federal regulations require OSFA to manage the reserve fund so that there is enough money in it to pay lenders for loan defaults when their normal collection efforts fail. Specifically, the law requires guarantors to manage the reserve fund so that cash and investments are greater than 0.25% of the original principal balance of outstanding guarantees (minimum Federal Fund ratio). If OSFA’s ratio falls below this level, the federal government could require the office to raise the ratio back up through other fund sources or discontinue being a guaranty agency. As shown in Exhibit 13, OSFA’s current reserve ratio is 1.72%.

**Exhibit 13  
Federal Regulations Require a Minimum Federal Loan Reserve Fund Ratio of 0.25%**

| Federal Fiscal Year | Total Federal Fund Assets | Original Principal Outstanding | Reserve Ratio |
|---------------------|---------------------------|--------------------------------|---------------|
| 2002                | \$ 83,178,408             | \$4,821,953,192                | 1.72%         |
| 2001                | 132,068,581               | 3,770,833,964                  | 3.50%         |
| 2000                | 128,190,672               | 3,369,513,441                  | 3.80%         |
| 1999                | 120,413,031               | 3,300,311,886                  | 3.65%         |
| 1998                | 118,563,367               | 3,956,855,093                  | 3.00%         |
| 1997                | 100,621,468               | 3,570,414,661                  | 2.82%         |
| 1996                | 97,227,207                | 3,178,802,032                  | 3.06%         |
| 1995                | 89,120,928                | 2,855,516,759                  | 3.12%         |

Source: Office of Student Financial Assistance.

The 2002 reduction in the reserve fund ratio is largely due to a series of recalls by the federal government. These recalls and related payments by OSFA are shown below.

- The 1997 Budget Reconciliation Act required the return of a total of \$1 billion nationwide in Federal reserves from all guaranty agencies over a five-year period. OSFA’s share of this nationwide recall was \$49 million, and was remitted to U.S. Treasury in September 2002.

- The 1998 amendments to the Higher Education Act contained a provision for an additional recall of Federal Reserve funds held by guaranty agencies totaling \$250 million. OSFA's share of this latest recall was \$6.5 million. In September 2002, the office remitted \$2.2 million of their share. OSFA is obligated to remit the remaining \$4.3 million over two years in 2006 and 2007.

To date, the overall effect of both federal recalls has been to delete Florida's Reserve Fund by a total of \$51.2 million with and additional \$4.3 million obligated for future remittance.

**Nationally, current trends in the reserve fund point to solvency problems for guarantors in the future, but OSFA should not have any problems for an estimated 22 years barring additional federal recalls.** According to the National Council of Higher Education Loan Programs, guaranty agencies nationwide are at risk of falling below the minimum reserve fund ratio in the future due largely to the recall and the decision by many not to charge the insurance fee. OSFA administrators stated that they are in a better position than some guarantors and do not anticipate problems in their reserve fund because of internal changes they have made to default aversion, claims, and collections procedures. If these changes do not reduce claims and improve collections, OSFA's reserve fund could ultimately drop below the minimum ratio. However, this would not occur until an estimated 22 years using current claim payout rates. This time frame could increase or decrease based on the economy, congressional reauthorization of the program, additional recalls, and changes in program performance.

If OSFA's reserve fund ultimately reaches the point at which time it might lose solvency, the state would have two major options to address the problem.

- Discontinue the office's guaranty agency operations and turn its loan guarantees over to the federal government. According to federal government officials, there would be no financial penalty to the state if this happened. The reserve fund is the federal government's property. The Legislature could then establish another guarantor as Florida's designated guaranty agency.

- Maintain OSFA as a guarantor, but raise the reserve fund back to the required level. OSFA could pursue several different strategies to accomplish this, including reestablishing the insurance fee, not transferring money out of the reserve fund for default aversion, or transferring revenue from the Loan Operating Fund.

### ***Most program customers are satisfied with the quality of services provided by the Office of Student Financial Assistance***

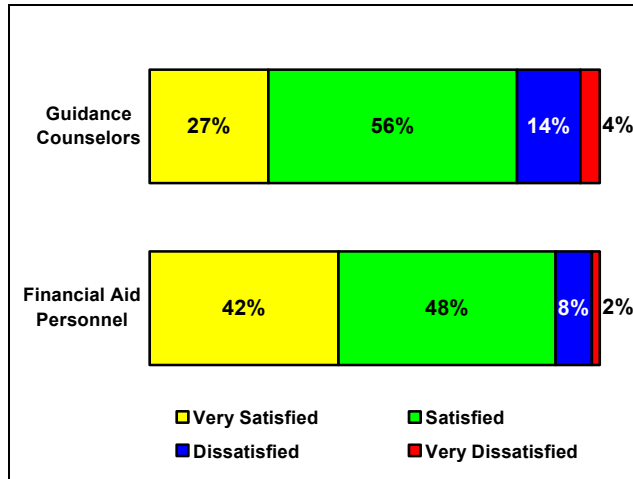
While not a legislative performance measure, program customers report a high level of satisfaction with the quality of services provided to them by OSFA. To determine the level of satisfaction with the office's services, we surveyed two of its major customer groups: institutional financial aid personnel, and high school guidance counselors.<sup>5</sup> Our survey examined both overall customer satisfaction and assessments of the specific services provided by OSFA. These services included (1) the online student financial aid database, (2) developing and disseminating program information, (3) customer service, and (4) determining student eligibility and disbursing aid awards.

**Overall satisfaction with OSFA is high.** As shown in Exhibit 14, both institutional financial aid personnel and high school guidance counselors reported that they were satisfied with services and support provided by OSFA. At least three-fourths of the respondents from both groups reported that they were satisfied or very satisfied with the office. Financial aid personnel gave the office slightly higher satisfaction ratings than did guidance counselors.

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<sup>5</sup> To determine whether customers were satisfied with the Office of Student Financial Assistance, we surveyed financial aid staff at all public and independent community colleges, four-year colleges, and universities. We received responses from all 39 public institutions, and from 19 of the 27 independent institutions. We also surveyed a random sample of high school guidance counselors in both public and private schools. We received responses from 60% of the guidance counselors surveyed. See Appendix D for more information about our surveys.

**Exhibit 14**  
**Both Financial Aid Personnel and Guidance Counselors Reported a High Level of Overall Satisfaction With OSFA**



Source: OPPAGA survey of program customers.

**OSFA is performing well in each of the major service areas covered by our survey.** Regarding specific services, both groups of respondents were generally satisfied with the major services provided by OSFA. (See Exhibit 15.) Their responses are discussed below.

- Respondents reported that OSFA’s online student financial aid database is accessible and useful. The database provides an online application for all state-funded financial aid programs and allows school district and postsecondary administrators to report and access financial aid data. Survey results showed that 86% of the financial aid personnel and 71% of the guidance counselors were satisfied or very satisfied with the database.
- Respondents believed that the office is doing a good job in providing needed and useful program information. Survey results showed that 95% of the financial aid personnel and 85% of the guidance counselors were satisfied or very satisfied with the information provided by OSFA.
- Program customers believe that OSFA’s processes for determining student eligibility and disbursing aid awards are efficient (timely, accurate, and convenient). Survey results showed that 91% of the financial aid personnel and 79% of the guidance

counselors were satisfied or very satisfied these processes.

- Respondents reported that OSFA personnel are courteous, professional (responsive and knowledgeable), and timely in responding to technical assistance and customer service inquiries. All of the financial aid personnel (100%) and 92% of the guidance counselors reported that they were satisfied or very satisfied with the office’s customer service.

See Appendix E for a discussion of how these various services affect overall satisfaction with the office.

**Exhibit 15**  
**Program Customers Were Generally Satisfied With All of the Major Service Areas Included on Our Survey**

|   | Very Dissatisfied | Dissatisfied | Satisfied | Very Satisfied |
|---|-------------------|--------------|-----------|----------------|
| <b>Online Database</b>                  |                   |              |           |                |
| Financial Aid Personnel                 | 4%                | 10%          | 59%       | 28%            |
| Guidance Counselors                     | 4%                | 25%          | 52%       | 20%            |
| <b>Providing Information</b>            |                   |              |           |                |
| Financial Aid Personnel                 | 0%                | 5%           | 42%       | 53%            |
| Guidance Counselors                     | 1%                | 15%          | 51%       | 33%            |
| <b>Eligibility and Aid Disbursement</b> |                   |              |           |                |
| Financial Aid Personnel                 | 1%                | 8%           | 50%       | 41%            |
| Guidance Counselors                     | 3%                | 18%          | 50%       | 30%            |
| <b>Customer Service</b>                 |                   |              |           |                |
| Financial Aid Personnel                 | 0%                | 0%           | 22%       | 78%            |
| Guidance Counselors                     | 2%                | 7%           | 35%       | 56%            |

Note: Percentages may not add to 100 due to rounding.  
 Source: OPPAGA survey of program customers.

**The financial aid database is OSFA’s weakest service area.** Both groups of respondents reported their lowest degree of satisfaction with the financial aid database system. Specifically, 14% of the financial aid employees and 29% of the guidance counselors reported that they were dissatisfied with accessibility and usefulness with the financial aid database. High school guidance counselors cited problems with the accessibility of the database as an online application tool. For instance, some counselors reported that students could not access the online Bight Futures application until December, which they felt was not very accommodating for students who graduate early. They felt the application should be accessible by September of

the academic year the student is going to graduate. The database system is still evolving, as it has been in operation since July 2001. OSFA administrators believe that this accounts for the higher rate of dissatisfaction in this area.

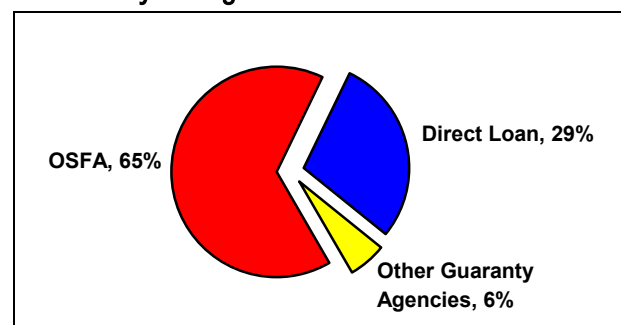
## Organizational Options —

### *Restructuring OSFA's guaranty agency function to operate as a entrepreneurial enterprise would enhance its effectiveness*

Restructuring the Office of Student Financial Assistance's guaranty agency function as an entrepreneurial enterprise would enhance its competitiveness and effectiveness. As long as the OSFA maintains the solvency of its Federal Student Loan Reserve Fund, the state directly benefits when the office guarantees student loans as it generates net earnings that the Legislature can appropriate to support the state's financial aid programs. The office must function in a competitive market, because students and institutions can use other agencies, including the federal Direct Loan program, Sallie Mae, USA Funds, and other states' guaranty agencies to process their student loans. Thus, options that improve the competitive position of OSFA's guaranty agency function will produce state benefits.

OSFA guaranteed approximately 65% of the federal student loans in Florida in 2000-01. (See Exhibit 16.) Several major institutions such as the University of Florida, Florida Agricultural and Mechanical University, and St. Petersburg College do not use OSFA services, but instead use direct lending or other guaranty agencies for their student loans. Financial aid administrators at these institutions noted that national guarantors such as Sallie Mae and USA Funds use more "state of the art" technology and have exceptionally low default rates. Other institutions reported that the federal government's direct lending program is more flexible than going through a guaranty agency and various lenders.

**Exhibit 16**  
**OSFA Guaranteed Approximately 65% of the Loans for Students Attending State Universities and Community Colleges in 2000-01<sup>1</sup>**



<sup>1</sup> Our analysis of loan volume does not include five institutions: University of North Florida, Edison Community College, Palm Beach Community College, Polk Community College, and Seminole Community College. These institutions were unable to provide specific information on the amount of loans guaranteed by guaranty agency.  
 Source: OPPAGA analysis of information provided by state universities and community colleges.

Unlike most state entities, OSFA's guaranty agency funding is based on performance, and it must compete for business against other entities that provide similar types of services. This gives the office features that are very similar to a private sector business or a nonprofit enterprise. However, under its current organizational structure, OSFA must operate as a state agency and meet the same administrative requirements as other agencies in Florida. For instance, the office's workforce is governed by the same laws and rules that apply to other state employees, and it must follow state procurement laws and rules. Many of OSFA's major competitors are nonprofits not subject to such restrictions.

**OSFA's guaranty agency function should be placed in an organizational setting that complements its private sector features.** The competitiveness and effectiveness of OSFA's guaranty agency function could be enhanced by placing it in an organizational setting that is more aligned with its entrepreneurial nature. This change would ultimately benefit Florida students through improved services and additional revenue for state financial aid initiatives. At a minimum, a new organizational structure should meet the criteria discussed below.



- **More personnel flexibility.** OSFA’s guaranty agency function should be given more flexibility in rewarding, motivating, and terminating its employees. Employees should be exempt from Ch. 110, *Florida Statutes*, which governs state employment policy. The function also should be given the authority to develop its own pay plan or schedule and to determine the number of FTE positions that it employs on an annual basis. This added flexibility would allow it to compete more favorably with the private or nonprofit sector in attracting employees, to expand or contract its workload more easily in response to market conditions, and to create incentives for employees to perform at higher levels.
- **More budget flexibility.** The function should be given a lump sum budget so that it can react to changing situations by readily shifting money to pay for unexpected expenses. Restrictions on budget transfer authority should be removed. However, the Legislature should retain its ability through the appropriations process to control the function’s overall budget and spending priorities, including decisions on how net earnings should be allocated to state financial aid programs.
- **More bidding and procurement flexibility.** The function should be exempted from state bidding and procurement requirements. These include those provisions governing procurement of personal property and services and the Administrative Procedures Act, which provides for bid protests.<sup>6</sup> This would help the function to quickly award contracts, focus more on quality instead of price, and would protect them from bid protests. Bid protest costs can be significant and can hinder its ability to operate efficiently and to generate additional revenues.
- **Authority for promotional and marketing activities.** OSFA’s guaranty agency function should be given ongoing authority to purchase promotional and marketing items. The office can currently purchase promotional items only if authorized by

proviso language each year. Examples of promotional items include pens, notebooks, and bags with OSFA’s logo and phone number on them, as well as food items at OSFA sponsored training events. Promotional and marketing activities are important to OSFA’s guaranty agency function to help it gain and retain market share.

**Two organizational placement options.** Based on the criteria above, we identified two organizational placement options that the Legislature should consider for OSFA’s guaranty agency function: (1) establishing the function as a nonprofit auxiliary or direct support organization of the Florida Board of Education; or (2) maintain the function within OSFA, but statutorily exempt it from certain governmental administrative and structural requirements. (See Exhibit 17 for a more detailed description of these options.) Either option would provide additional flexibility on personnel, purchasing, and budget policies/decisions and would improve the program’s ability innovate and compete with guaranty agencies that already operate as private or nonprofit organizations. This in turn would improve the function’s ability to generate funds that the Legislature can use to support state financial aid programs.

## Conclusions and Recommendations

Since it has not reported data for current legislative performance measures, the Office of Student Financial Assistance has provided little accountability information to the Legislature for the millions of dollars spent on the student financial assistance program. To address this, we recommend that OSFA

- collect and report data for the performance measures that lack reported data; and
- revise the data reported for the two measures that contain misleading information.

<sup>6</sup> Chapters 287 and 120, *Florida Statutes*.

## Exhibit 17

### Two Placement Options Could Enhance the Effectiveness of OSFA's Guaranty Agency Function

#### OPTION 1: Establish OSFA's guaranty agency function as an auxiliary enterprise of the Florida Board of Education

Chapters 1001 and 1009, *F.S.*, should be revised as outlined below.

- Authorize the Florida Board of Education to establish a nonprofit auxiliary or direct support organization to provide operational and administrative services for the Department of Education's participation in the federal student loan program. The organization should also be given the authority to administer other financial aid programs as selected by the Florida Board of Education. The department should retain its status as Florida's designated guaranty agency, and the auxiliary should be designed to enhance the department's administration of student financial aid programs.
- Provide that the nonprofit auxiliary be established as a corporation not for profit subject to provisions of Ch. 617, *F.S.*
- Provide that the operations of the auxiliary should be conducted in conformity with an operating agreement approved annually by the Florida Board of Education. At a minimum, this operating agreement should cover the following areas: (1) any support services or special programs to be administered by the auxiliary organization; (2) the sources of revenue available to the auxiliary organization including Loan Operating Trust Fund revenues, and state revenues allocated for administration of state financial aid programs; (3) support and administrative services to be provided by Department of Education personnel, which may include accounting, clerical, information technology, and other services necessary for the administration of the auxiliary organization; and (4) annual performance reporting requirements for the auxiliary organization.
- Provide that employees of the auxiliary organization are not employees of the State of Florida, and shall not be subject to the provisions of Ch. 110, *F.S.*
- Provide that employees of the Department of Education may be assigned to assist or work for the auxiliary organization, but specify that these employees will maintain their status as employees of the department.
- Specify that a board of directors appointed by the Florida Board of Education shall govern the auxiliary organization.
- Transfer OSFA's current loan functions, responsibilities, and personnel to the newly created auxiliary organization.
- Require the Florida Board of Education to provide an annual report on the auxiliary organization to the Legislature by January 1 of each year. The report should cover the following issues at a minimum: (1) a description of services provided by the organization; (2) the organization's annual budget, including sources of revenue available to fund its operations; (3) performance information on federal loan volume, loan recoveries, loan default rates, and other information related to state financial aid programs; and (4) descriptions of changes in the delivery of student aid (particularly loans) to Florida students and enhancements to programs and activities.

#### OPTION 2: Maintain the guaranty agency function within OSFA, but statutorily exempt it from certain governmental administrative and structural requirements.

Section 110.205 and Chs. 1001 and 1009, *F.S.*, should be revised as outlined below.

- Provide the Florida Board of Education the authority to establish and maintain a separate personnel program for employees of OSFA's guaranty agency function including a personnel classification and pay plan.
- Specify in law that employees of OSFA's guaranty agency function serve at the pleasure of the secretary of the board and shall be subject to suspension, dismissal, reduction in pay, demotion, transfer, or other personnel action at the discretion of the secretary. Such personnel actions should be exempt from the provisions of Ch. 120, *F.S.* All employees of the office are exempt from the Career Service System provided in Ch. 110, *F.S.*, and, notwithstanding the provisions of s. 110.205(5), *F.S.*, are not included in either the Senior Management Service or the Selected Exempt Service.
- Exempt the function from the purchasing and bidding requirements under Chs. 255, 273, 281, 283, or 287, *F.S.*, or any rules adopted under any such chapter. The office, through the Florida Board of Education, should be required to adopt rules providing for alternative procurement procedures. Such alternative procedures should be designed to allow OSFA to evaluate competing proposals and select the proposals that provide the greatest long-term benefit to the state with respect to the quality of the products or services, dependability and integrity of the vendor, dependability of the vendor's products or services, security, competence, timeliness, and maximization of gross revenues and net proceeds over the life of the contract.
- Give OSFA the specific authority to conduct advertising and promotion activities for student financial aid programs that are consistent with the dignity and integrity of the state

## *Justification Review*

The current legislative measures, if correctly reported, could be used to assess performance issues related to the state's financial aid policies. However, the measures do not provide information that can be used to assess college affordability in Florida, which is an important issue for financial aid programs. In addition, none of the measures can be used to evaluate the OSFA's performance in administering financial aid programs. To address this, we recommend that the Legislature take the actions described below.

- Add a measure that reports the unmet financial need for students as a percentage of the cost of attendance. This measure will provide the Legislature with a tool for monitoring how its financial assistance policies are affecting college affordability for students in Florida. This measure would require colleges and universities to submit additional data to the Department of Education.
- Add four measures that provide information about OSFA's performance. These measures should include a customer satisfaction measure and three measures that provide information about the office's productivity as a guaranty agency for the federal loan program. The loan program measures should include (1) the total number and amount of loans guaranteed by the office each year; (2) the annual percentage of loans recovered over loans defaulted; and (3) the office's federally calculated cohort default rate for student loans.

The office's productivity in guarantee processing of student loans and recovering defaulted loans has significantly improved over the last few

years. However, the office's performance in preventing students from defaulting on loans worsened in the most recent year of data after improving during the two previous years. OSFA has the highest cohort loan default rate (9.1%) in the nation among all guaranty agencies. To address this, the office should take immediate steps to implement its federally approved default prevention plan.

The competitiveness and effectiveness of OSFA's guaranty agency function could be enhanced by an organizational structure that is more aligned with its entrepreneurial nature. Enhancing the function's effectiveness would ultimately benefit Florida students through improved services and additional revenue for state financial aid initiatives. We recommend that the Legislature consider the following placement options for the OSFA's guaranty agency function:

- statutorily authorize the State Board of Education to establish the function as a nonprofit auxiliary or direct support organization of the board; or
- maintain the function with OSFA, but statutorily exempt it from governmental personnel and purchasing requirements located in Chs. 110, 120, and 287, *Florida Statutes*.

Either option would provide the function with maximum flexibility on personnel, purchasing, and budget policies/decisions and would improve its ability to compete with guaranty agencies that already operate as non-profit organizations.

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John W. Turcotte, OPPAGA Director

## Appendix A

# Statutory Requirements for Program Evaluation and Justification Review

Section 11.513(3), *Florida Statutes*, provides that OPPAGA Program Evaluation and Justification Reviews shall address nine issue areas. Our conclusions on these issues as they relate to the Student Financial Assistance Programs are summarized in Table A-1.

**Table A-1**  
**Summary of the Program Evaluation and Justification Review of**  
**Student Financial Assistance Programs**

| Issue   | OPPAGA Conclusions  |
|---|---|
| The identifiable cost of the program  | The program was appropriated \$430 million and 245 FTEs for Fiscal Year 2002-03.  |
| The specific purpose of the program, as well as the specific public benefit derived therefrom   | <p>Financial aid programs ease the financial burden of attending college by helping students and their families to pay for the cost of attendance. By doing so, the program helps to ensure that financial obstacles do not prevent students from achieving a college education. Individuals with a college education typically have higher incomes, live longer, and provide a higher quality of life for their children.</p> <p>Financial aid programs serve other purposes depending on the particular program. For instance, the Bright Futures program rewards high school students for superior levels of academic achievement and performance. The Florida Teacher Scholarship Program provides assistance to help attract capable and promising students to the teaching profession, attract teachers to areas of projected or current critical teacher shortage, and attract liberal arts and science graduates to teaching.</p> <p>Another benefit of the program is that the Office of Student Financial Assistance (OSFA) provides revenue for state financial aid initiatives through earnings generated from federal loan program administration. The office has approximately \$7.9 million in net earnings that the 2003 Legislature could appropriate to support state financial aid programs next year.</p> |
| The consequences of discontinuing the program   | <p>The consequences of discontinuing state financial assistance will vary according to the specific program. For example, eliminating need-based programs such as the Florida Student Assistant Grant (FSAG) would hurt individual students in the short-term because it would reduce the amount of financial resources available to them for attending college. In the long-term, however, it could hurt the state's economy if fewer individuals are able continue their postsecondary education because of the lack of financial resources.</p> <p>Consequences of discontinuing or modifying the Bright Futures Scholarship Program will be discussed in an upcoming OPPAGA report.</p> <p>Consequences of discontinuing or modifying the Florida Resident Access Grant will be discussed in an upcoming OPPAGA report.</p>   |
| Determination as to public policy, which may include recommendations as to whether it would be sound public policy to continue or discontinue funding the program, either in whole or in part | <p>The overall public benefit derived from student financial assistance overall indicates that it is sound public policy to continue funding the program. In general, financial aid programs ease the financial burden of attending college by helping students and their families to pay for the cost of attendance (college affordability). However, the state currently has over 30 individual financial aid programs that serve a variety of different purposes. The overall public benefit of some of these programs is limited because they target a very specific type of student (i.e., Rosewood Family Scholarship, Seminole and Miccosukee Indian Scholarships, etc.). Thus, the choice to continue these programs depends largely on legislative goals and priorities.</p> <p>The public policy of continuing or modifying the Bright Futures Scholarship Program will be discussed in an upcoming OPPAGA report.</p> <p>The public policy of continuing or modifying the Florida Resident Access Grant will be discussed in an upcoming OPPAGA report.</p>  |
| Progress towards achieving the outputs and outcomes associated with the program   | The program's legislative performance measures cannot be used to evaluate its performance because the Office of Student Financial Assistance has not reported or collected data for most of the measures. Although the Legislature established eight performance measures for the program, the office has reported data for only three of these measures as of December 2002. In addition, two of the three measures with reported data are misleading because the data used to calculate them does not match the corresponding measure listed in the General Appropriations Act.   |

| Issue   | OPPAGA Conclusions  |
|---|---|
|   | <p>In the absence of useful measures, we analyzed several key indicators of the OSFA's productivity as a guaranty agency for the federal student loan program and conducted a customer satisfaction survey of postsecondary institutions and high school guidance counselors. Based on this, we concluded that OSFA is generally performing well but should take steps to address its high default rate for federal student loans.</p> <ul style="list-style-type: none"> <li>• The office increased the annual amount of student loans that it guarantees by 66% between Fiscal Years 1997-98 and 2001-02.</li> <li>• OSFA more than doubled the percentage of loans that it recovered in 2000-01 over the three previous years. The office recovered 24% of its defaulted loans in 2000-01 as compared to only 10% in 1997-98.</li> <li>• OSFA has the highest cohort loan default rate (9.1%) in the nation among all guaranty agencies. The office's cohort loan default rate had been improving since 1996-97, but it worsened in the most recent year of available data (1999-00).</li> <li>• Program customers are generally satisfied with the quality of services provided by the OSFA.</li> </ul> <p>Performance issues related to the Bright Futures Scholarship Program will be discussed in an upcoming OPPAGA report.</p> <p>The effect of state financial aid policies on college affordability will be discussed in an upcoming OPPAGA report.</p>  |
| <p>An explanation of circumstances contributing to the state agency's ability to achieve, not achieve, or exceed its projected outputs and outcomes, as defined in s. 216.011, <i>F.S.</i>, associated with the program</p>         | <p>Loan volume is itself an indicator of the office's performance. This is because other guaranty agencies also operate in Florida and so OSFA must compete for customers based in part on its services. OSFA administrators attributed their increase in loan volume to improved customer service, which included establishing new positions in five regional locations to assist schools and lenders in processing student loans. Historically, the office has not focused on default prevention, which likely has contributed to its high default rate. Rather, OSFA's strategy has been to focus more on providing default aversion services, which do not begin until a borrower is already delinquent in repaying his or her loans. OSFA's high default rate indicates that this strategy has not been very successful in preventing borrowers from defaulting on their loans.</p>  |
| <p>Whether the information reported pursuant to s. 216.031(5), <i>F.S.</i>, has relevance and utility for the evaluation of the program</p>   | <p>The current measures, if correctly reported, could be used to assess important performance issues related to the state's financial aid policies. However, the measures do not assess the extent to which Florida's financial aid policies are meeting the state's goal of ensuring college affordability. In addition, none of the measures can be used to evaluate the performance of the Office of Student Financial Assistance. To address these problems, the Legislature should consider adding a performance measure for college affordability and several measures that could be used to assess the office's performance in administering financial aid programs.</p>   |
| <p>Whether state agency management has established control systems sufficient to ensure that performance data are maintained and supported by state agency records and accurately presented in state agency performance reports</p> | <p>As previously stated, the program's legislative performance measures cannot be used to evaluate its performance due to the office's failure to report or collect data for most of the measures. OSFA administrators stated that the reporting delays have been primarily caused by disagreements over the appropriateness of the measures for evaluating financial aid programs.</p>   |
| <p>Alternative courses of action that would result in administering the program more efficiently and effectively</p>  | <p>OSFA has the highest cohort loan default rate (9.1%) in the nation among all guaranty agencies. To address this, the office should take immediate steps to implement its federally approved default prevention plan. OSFA's competitiveness and effectiveness as a guaranty agency could be enhanced by an organizational structure that is more aligned with its entrepreneurial nature. Enhancing the office's effectiveness would ultimately benefit Florida students through improved services and additional revenue for state financial aid initiatives. We recommend that the Legislature consider the following placement options for the office's guaranty agency function:</p> <ul style="list-style-type: none"> <li>• statutorily authorize the Florida Board of Education to establish the function as a nonprofit auxiliary or direct support organization of the board or</li> <li>• statutorily exempt the function from governmental personnel and purchasing requirements located in Chs. 110, 120, and 278, <i>F.S.</i></li> </ul> <p>Either option would provide the guaranty agency function with maximum flexibility on personnel, purchasing, and budget policies/decisions and would improve its ability to innovate and compete with guaranty agencies that already operate as non-profit organizations.</p> <p>Recommendations specifically related to the Bright Futures Scholarship Program will be discussed in an upcoming OPPAGA report.</p> <p>Recommendations specifically related to the Florida Resident Access Grant will be discussed in an upcoming OPPAGA report.</p> |



## Appendix B

# Description of State Financial Aid Programs

### *Need-Based Programs (awarded based on financial need)*

- **Florida Student Assistance Grant** provides grants for undergraduate degree-seeking students attending an eligible Florida public or private college, university, or postsecondary institution who demonstrate substantial financial need.
- **Florida Work Experience Program** provides eligible undergraduate students the opportunity to secure work experiences that are complementary to and reinforce their educational and career goals.
- **Jose Marti Scholarship Challenge Grant** provides scholarships to Hispanic American high school students who meet scholastic requirements and demonstrate financial need.
- **African Afro-Caribbean Scholarship Program** provides scholarships to students who are citizens of a sub-Saharan African or Afro-Caribbean country, demonstrate financial need, enroll full-time as undergraduate or vocational students at an eligible institution, maintain passing grades, and declare their intention to return to their country of origin and remain there for the number of years awarded.
- **Latin American Caribbean Basin Scholarship Program** provides scholarships to students who are citizens of a Caribbean, Central American, or South American country and who demonstrate financial need, enroll full-time as undergraduate students at an eligible college or university, maintain a 2.0 GPA, and declare their intention to return to their home country and remain there for the number of years awarded.
- **Mary McLeod Bethune Scholarship** provides scholarships for undergraduate students who meet scholastic requirements, demonstrate financial need, and attend Florida A&M University, Bethune-Cookman College, Edward Waters College, or Florida Memorial College.
- **Minority Teacher Education Scholars Program** provides an annual scholarship for each approved minority student enrolled in one of Florida's public or private universities in the junior year and admitted to a teacher education program.
- **Seminole and Miccosukee Indian Scholarships** encourage students from the Seminole Tribe of Florida and the Miccosukee Tribe of Florida to pursue postsecondary education. Scholarship recipients are selected based on financial need and academic requirements.
- **Rosewood Family Scholarship** provides scholarships for 25 minority undergraduate students to attend a state university, community college, or public postsecondary vocational/technical school, with priority given to descendants of affected African-American Rosewood families.

### *Merit-Based Programs*

- **Bright Futures Scholarship Program** is intended to motivate Florida high school students toward higher academic achievement and to reward such achievement. The program consists of four award categories: the Florida Academic Scholars Award, the Academic Top Scholars Award, the Florida Merit Scholars Award, and the Florida Gold Seal Vocational Scholars Award.

### ***Special Interest Programs***

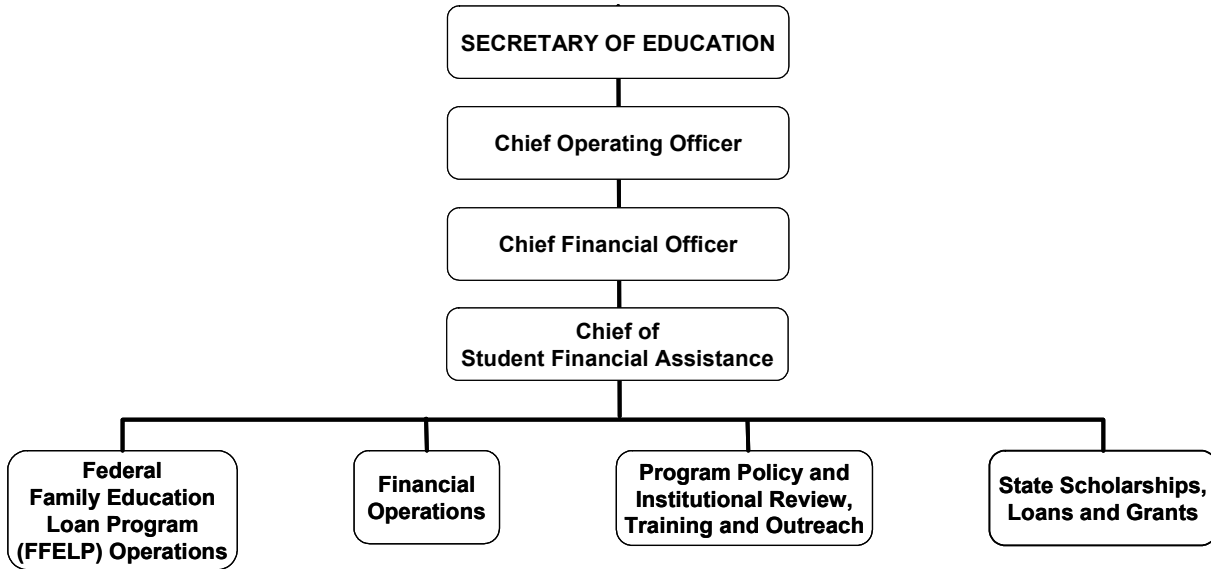
- **Florida Teacher Scholarship and Forgivable Loan Program** provides scholarship assistance to eligible students for lower-division undergraduate study and loan assistance to eligible students for upper-division undergraduate and graduate study. The primary purpose of the program is to attract capable and promising students to the teaching profession, attract teachers to areas of projected or current critical teacher shortage, and attract liberal arts and science graduates to teaching.
- **Ethics in Business Scholarships** provides assistance to undergraduate students who enroll in Florida community colleges and eligible private Florida colleges and universities. The program was created by the 1997 Legislature from funds received from a \$6 million settlement.
- **Scholarships for Children of Deceased or Disabled Veterans** provides scholarships for eligible dependents of deceased or 100% disabled veterans for attendance at eligible Florida postsecondary institutions.
- **Florida Resident Access Grant** provides tuition assistance to full-time Florida undergraduates attending an eligible private, non-profit Florida college or university.
- **Robert C. Byrd Honors Scholarship Program** is a federally-funded program to promote student excellence and achievement. Outstanding Florida high school seniors must be nominated by their high school. The program provides funds to attend any eligible postsecondary institution, including out-of-state schools.

### ***Professional Programs***

- **Critical Teacher Shortage Program** is available to certified teachers in Florida public schools. The Critical Teacher Loan Forgiveness Program provides educational loan repayment assistance to eligible certified Florida teachers. The Critical Teacher Tuition Reimbursement Program provides assistance to full-time Florida publicly-funded school employees who are preparing to teach in a CTS area.
- **Critical Occupational Therapist or Physical Therapist Shortage Scholarship Loan Program** is to encourage students to pursue degrees in one of these two professions and declare their intent to work as full-time therapists in Florida publicly-funded schools (K-12).
- **Critical Occupational Therapist or Physical Therapist Shortage Student Loan Forgiveness Program** was established to encourage qualified personnel to seek employment in Florida publicly-funded schools. This program provides financial assistance in the form of repayments toward educational loans incurred by applicants in becoming licensed therapists.
- **Critical Occupational Therapist or Physical Therapist Shortage Tuition Reimbursement Program** assists full-time therapists currently employed in Florida publicly-funded schools (K-12) to enhance their professional skills.
- **Nursing Student Loan Forgiveness Program** seeks to increase employment and retention of licensed practical nurses, registered nurses, and advanced registered nurse practitioners in areas of Florida where critical nursing shortages exist. Such employees are to be employed in nursing homes and hospitals in the state or in state-operated medical and health care facilities, birth centers, federally-sponsored community health centers, and teaching hospitals. The program awards repayment toward loans received by students from federal or state programs or commercial lending institutions for the support of postsecondary study in accredited or approved nursing programs.

Appendix C

# Organizational Chart



Source: Office of Student Financial Assistance.

## Appendix D

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# List of Centralized and Decentralized Financial Aid Programs for 2001-02

**Table D-1**  
**Some State Financial Aid Programs Have Been Decentralized Administratively**

| Centralized Programs   | Decentralized Programs   |
|--|--|
| <p>A centralized program is one in which OSFA collects data and determines a student's eligibility. OSFA then authorizes an institution to disburse appropriate program funds.</p> <ul style="list-style-type: none"><li>• Florida Bright Futures Scholarship</li><li>• Children of Deceased and Disabled Veterans</li><li>• Rosewood Family Scholarship</li><li>• Jose Marti Scholarship Challenge Grant</li><li>• Robert C. Byrd Honors Scholarship</li><li>• Critical Teacher Shortage Loan Forgiveness</li><li>• Critical Teacher Shortage Tuition Reimbursement</li><li>• Florida Teacher Scholarship and Forgivable Loan</li><li>• Exceptional Child Scholarship</li><li>• Occupational/Physical Therapy Shortage Program</li><li>• Instructional Aide/Critical Teacher Shortage Program</li></ul> | <p>A decentralized program is one in which the eligible participating institution is responsible for adhering to state statutes and rules and policies to identify eligible students and disburse appropriate awards. The institution is then responsible for documenting the disbursement data to OSFA.</p> <ul style="list-style-type: none"><li>• Florida Student Assistance Grant</li><li>• Florida Resident Access Grant</li><li>• Florida Work Experience Program</li><li>• Mary McLeod Bethune Scholarship</li><li>• Ethics Scholarship</li><li>• Florida Fund for Minority Teachers</li><li>• Seminole and Miccosukee Indian Scholarships</li><li>• African and Afro-Caribbean Scholarship</li><li>• Latin American/Caribbean Scholarship</li><li>• Limited Access Competitive Grant</li></ul> |

Source: Office of Student Financial Assistance.

## Appendix E

# Survey Methodology

To examine the Office of Student Financial Assistance's performance in providing program related services, we surveyed two of its major customer groups: financial aid personnel at postsecondary institutions and high school guidance counselors. We used questionnaires with only slight variations for the two customer groups. We modeled the questionnaires after the American Customer Satisfaction Index produced by the partnership of University of Michigan, American Society for Quality, and CFI Group. We used different sampling strategies for the two groups.

We designed our survey to look at two aspects of customer satisfaction.

1. **Identifying the level of satisfaction with OSFA services.** Knowing the level of satisfaction is important because it provides a measure of the office's performance in meeting the needs of its customers. We examined overall satisfaction with OSFA as well as satisfaction with specific services provided by the office.
2. **Identifying the relative effect that each of OSFA's services has on overall satisfaction with the office.** As OSFA looks for ways to improve services and increase customer satisfaction, it should focus not only on services with lower levels of satisfaction, but also on those services that have the strongest effect on how guidance counselors and financial aid personnel view their overall satisfaction with the office. This would yield the greatest gains in customer satisfaction and would ensure that these customers continue to be satisfied. For example, if a particular service provided by a program is relatively unimportant to its customers, the quality of that service is not likely to have a strong influence on overall customer satisfaction with the program. Thus, focusing program improvement efforts on this service would not be effective in changing customer views of the program. We developed a statistical model to determine which of the services provided by the office have the greatest influence on customer perceptions of quality and satisfaction.

### *Survey of financial aid personnel at postsecondary institutions*

We surveyed appropriate financial aid personnel at all postsecondary institutions in Florida, public and private universities and colleges and public community colleges. We contacted the financial aid director at each institution, explained the content of the survey, asked them to review the survey online, and have all appropriate personnel complete the survey. We used multiple contacts with the financial aid directors to increase the survey response rates. We received responses from all public universities and community colleges and from 19 of 27 private postsecondary institutions.

### *Survey of high school guidance counselors*

Limited by available information, we used separate sampling strategies for guidance counselors from public and private high schools. For public high schools, we obtained a list of guidance counselors from the Department of Education and school websites. We randomly selected 400 guidance counselors from this list. We sent letters to the sampled counselors asking them to respond to our online survey. To increase response rates, we contacted those not responding up to two additional times. For the last contact we mailed surveys to those not responding. Sixty percent of the sample responded to the survey.



The survey has a sampling error rate of plus or minus six percentage points at the 95% confidence level.

Because we could not easily develop a list of guidance counselors in private high schools we used a different sampling strategy. We obtained a list of private schools and their enrollments from the Department of Education. We selected all private schools with an enrollment of at least 500 students for grades 9 through 12. We sent a letter to the guidance department of each school and asked that all appropriate guidance counselors complete our online survey. To increase response rates we contacted those schools with no one responding up to two additional times. For the last contact we mailed surveys to those not responding. Guidance counselors from 26 of the 36 schools (72%) contacted responded to the survey.

### ***Factors that influence customer satisfaction with OSFA***

We used a statistical technique referred to as causal modeling (also referred to as structural equation modeling) to identify the most important factors affecting satisfaction with the OSFA's services (Hayduk 1987; Arbuckle and Wothke 1999).<sup>7</sup> The technique estimates how much the level of satisfaction with specific OSFA services affects customers' perception of the overall quality of OSFA services and their overall satisfaction with OSFA services. We asked survey respondents to rate four factors affecting perceptions of quality and satisfaction: (1) satisfaction with the online database, (2) ease of access to and the usefulness of OSFA information, (3) efficiency of determining eligibility and disbursing awards, and (4) courteous, timely, and helpful responses to inquiries. In addition we asked respondents to rate the overall quality of OSFA services and to answer a series of questions on their overall satisfaction with OSFA.

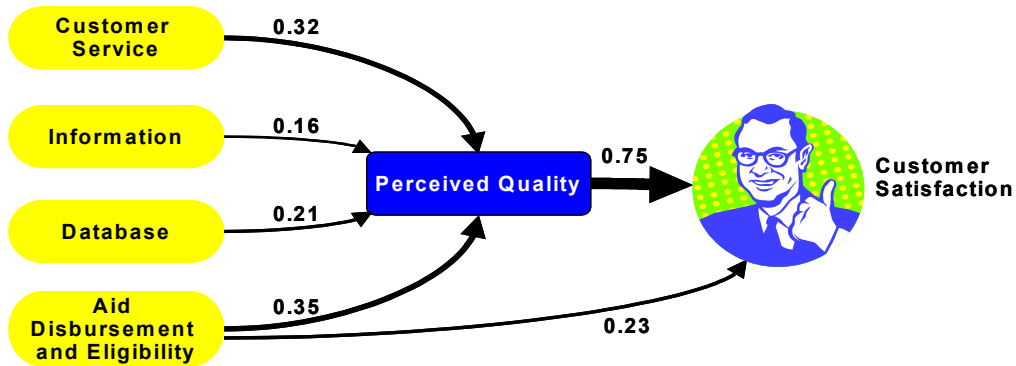
We used standardized maximum likelihood estimates of the direct and indirect effects of each factor on overall satisfaction. Factors with the most influence have the largest coefficients. As discussed below, financial aid personnel and guidance counselors differed as to which factors had the most influence on their level of satisfaction with OSFA.

**Financial aid personnel are strongly affected by eligibility determinations and aid disbursement.** As shown in Exhibit E-1, OSFA's efficiency in determining student eligibility and disbursing aid awards had the largest combined effect (largest coefficients) on perceptions of quality and customer satisfaction for financial aid personnel. The model shows that survey questions related to aid disbursement had the strongest correlation with how respondents answered questions related to perceived quality (0.35) and overall satisfaction (0.23). The model also shows, as expected, that perceived quality is strongly correlated (0.75) with overall satisfaction. The database had a much weaker effect (0.21) on customer attitudes toward OSFA. Thus, even though the database had a lower satisfaction rating, it would not have as great an effect on increasing financial aid personnel's overall satisfaction as eligibility determination and aid disbursement. Since financial aid personnel are directly responsible for ensuring that students receive their financial aid awards, it is understandable that their overall satisfaction would be closely aligned with OSFA's performance in disbursing aid to the colleges and students.

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<sup>7</sup> *Amos 4.0 User's Guide*, Arbuckle and Wothke, 1999.

**Exhibit E-1  
OSFA's Efficiency in Determining Student Eligibility and Disbursing Aid Awards**

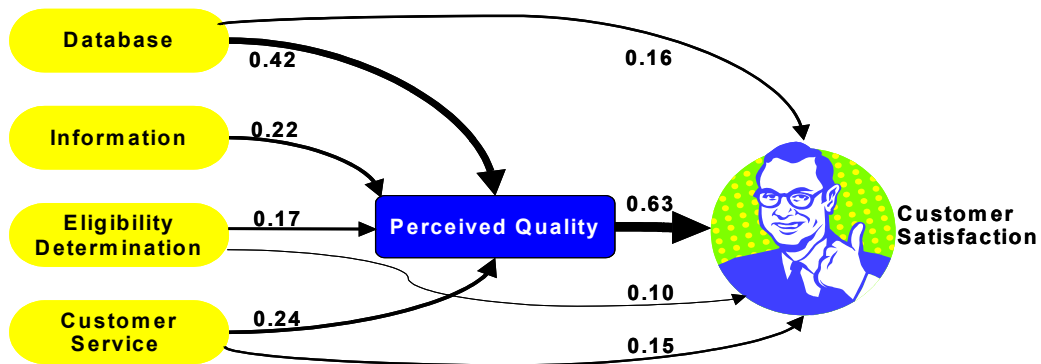


1 The numbers represent how strongly a particular service influences perceptions of quality and overall customer satisfaction. The closer to 1 the stronger the influence.

Source: OPPAGA analysis.

**High school guidance counselors are strongly affected by the online financial aid database.** As shown in Exhibit E-1, the accessibility and usefulness of OSFA's online financial aid database had the largest combined effect (largest coefficients) on guidance counselor perceptions of quality and their overall customer satisfaction. The model shows that survey questions related to the database had the strongest correlation with how respondents answered questions related to perceived quality (0.42) and overall satisfaction (0.16). The model also shows that perceived quality is strongly correlated (0.75) with overall satisfaction. Since the database system also had the lowest satisfaction rating, it is clear that OSFA needs to identify ways to improve the system's accessibility and usefulness for high school guidance counselors. Guidance counselors are an important user of the database because they help high school students use the system when applying for financial aid, particularly for the Bright Futures Scholarship Program.

**Exhibit E-2  
OSFA's Online Student Financial Aid Database System Had the**



1 The numbers represent how strongly a particular service influences perceptions of quality and overall customer satisfaction. The closer to 1 the stronger the influence.

Source: OPPAGA analysis.

*Appendix F*

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## Response from the Florida Department of Education

In accordance with the provisions of s. 11.51(5), *Florida Statutes*, a draft of our report was submitted to the Commissioner of the State Board of Education for his review and response.

The Commissioner's written response is reprinted herein beginning on page 27.



**FLORIDA DEPARTMENT OF EDUCATION**

**JIM HORNE**  
COMMISSIONER

February 17, 2003

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Mr. John Turcotte, Director  
Office of Program Policy Analysis  
and Government Accountability  
111 West Madison Street, Room 312  
Claude Pepper Building  
Tallahassee, FL 32399-1475

Dear Director Turcotte:

The Florida Department of Education is appreciative of the hard work and thoroughness provided by your staff during the Justification Review of the Office of Student Financial Assistance. Attached is the Department's official response to this justification review.

If you require additional information please contact Chief Financial Officer Wayne V. Pierson, at (850) 488-6539.

Sincerely,

/s/ \_\_\_\_\_  
Jim Horne  
Commissioner

Attachment: Response to Justification Review of the  
Office of Student Financial Assistance

WG/dsh

## *Justification Review*

We concur that the Office of Student Financial Assistance (OSFA) has been unable to report all of the data necessary for the current legislative performance measures. This is due to the fact that OSFA does not currently collect all of the required data. However, information and analyses have been provided upon request by the Legislature. OSFA will work diligently with the Legislature to provide the necessary information for performance measurement.

As noted in the review, OSFA has implemented a default prevention plan and has recently conducted default prevention workshops. OSFA will continue to enhance its efforts in the area of default prevention.