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A Preliminary Outline of Issues and Observations Regarding the SSI or Funding Formula

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For more than three decades Ohio's funding formula has been used to distribute state support for higher education to a very diverse set of public colleges and universities. It has survived changes in political and academic leadership, widely different enrollment patterns and good and bad economic cycles due to its flexibility and adaptability to changing needs. It also has been one of the primary foundations for encouraging institutions with very different missions to work together to reach a common understanding about how to share what generally has been modest, if not inadequate, state support. No approach to the allocation of funding can correct the issues that naturally arise from trying to serve increasing numbers of students during a period of declining funding. It is important that the methods used to ration a funding shortage not be viewed as the exclusive barrier or the exclusive solution to improving higher education in Ohio.

Strengths of the Formula

- By including all of Ohio's public colleges and universities under one funding formula it has encouraged greater collaboration and coordination among all institutions than exists in many states.

- The funding provided as a result of the formula distribution taken together with instructional fees has generally been considered the minimum needed to provide basic instructional services. By funding other higher education priorities outside the formula, it has been easier to ensure that this basic instructional support is not compromised for these objectives and the funding for other priorities is more easily identified and targeted to such priorities.

- The fact that funds allocated through the formula are unrestricted provides campuses with the flexibility they need to manage resources effectively in a rapidly changing environment. The formulaic nature of the distribution also better enables campuses to identify and plan for issues related to funding.

- The use of a single fee assumption for all models at a given level (e.g., General Studies and Technical vs. Baccalaureate vs. Masters and Professional) implies that the state and not the student is responsible for paying for differences in costs attributable to the different costs of different disciplines. Since science and technology disciplines tend to

be more expensive than social science or humanities disciplines, this avoids a disincentive for enrollments in the more expensive disciplines that seem to have special promise for Ohio's economy.

- The enrollment-driven nature of the formula provides an incentive to campuses to attract and retain students in much the same way that voucher systems are said to do.

- It is responsive to enrollment change. This was critically important in the early years of the formula (1965-1980), since it determined the amount of additional state funding required to accommodate the needs of the baby boom. This feature also allowed growing campuses to enjoy the same levels of funding over time as campus whose growth occurred earlier. This feature supports the state's need for broader participation in higher education.

- It is tied to actual expenditures being incurred statewide for similar programs, arguably a more credible basis for funding than the prescriptive calculations used in some other states.

- The use of statewide average expenditures rather than a campus's unique cost experience creates an incentive for campuses to keep costs at or below the average which naturally encourages greater productivity and efficiency.

Weaknesses of the Formula and Other Problems

- In the 1960s and 1970s, the formula determined the level of state support to be provided. Enrollments were estimated for each model (a group of courses sorted by program and level). These enrollments were multiplied by the statewide average cost per student (adjusted by an inflationary factor that was often less than the inflation being experienced in the overall economy.) The result was a projected total cost of providing instruction and related services in the budget period. From this total was subtracted an amount representing an assumed or typical tuition charge multiplied by forecast enrollments in each model. This assumed tuition level in the formula was not permitted to grow significantly, since that would have implied the need for campus tuitions to grow significantly as well.

  The formula assumed that an increase in enrollments would require an increase in state support, just as increases in K-12 enrollments or increases in the numbers of people incarcerated or in the number of Medicaid-eligible in nursing homes lead to increases in state support. But in the early 1980's, when Ohio's unemployment rate exceeded 13 percent for a full year, the pressures on the state budget became unbearable. An important result was that the fee assumption, which represented the portion of the cost of higher education which was not the state's responsibility, was allowed to rise as much as necessary to keep the state's funding obligations to predetermined limits. The formula was no longer seen as a rational way to determine the amount of state funding required. Instead, it became simply a rationing device to allocate whatever amount the state was

willing to spend on higher education. The formula has been viewed in this way ever since.

The consequences of this change have been huge. In recent years, statewide enrollments have increased by 50,000 FTE's without any increase in state funding to pay for them. Instead, they have been "funded" by an increase in the fees assumed by the formula. In short order, these increases in assumed fee levels have been translated into actual fee increases, since additional actual revenues from students was the only source of revenue available to serve additional enrollments. These very substantial increases in the prices charged for college and university attendance have made it much more difficult for Ohioans to respond to the wrenching changes occurring in the state's economy.

The transformation of the formula into a rationing device has also greatly weakened some of the historic strengths of the formula, including the last three noted above.

- The formula now responds to enrollment growth only by diluting state support per student. This has particularly negative consequences for programs and institutions whose enrollments have remained relatively flat.

- The formula's basis in actual statewide average costs has lost much of its meaning as the linkage between actual costs and state funding has been broken.

- While there is still an incentive to control costs, no campus can reduce its costs faster than the state can reduce its support. Every campus must increase its prices faster than anyone would like.

- The formula today is derived solely from internal cost information providing no benchmark relative to its adequacy and at times contributing to distribution problems resulting from formula driven outcomes. A benchmark is needed for judging the adequacy of the funding provided by the formula and for measuring progress in that regard. Possibilities include a lower student share, per student funding measured against national levels by sector or previous levels in Ohio, aggregate funding per capita or as a fraction of personal income compared to national averages. The per-student funding should also be compared to similar units of funding for K-12, prisons, etc.

- The sharp fluctuations in the amount of the "assumed fee" or "local contribution" portion of the formula have different consequences for different models, depending on the projected level of spending in a model. In general, for a group of models that has a single fee assumption, an increase in that fee assumption as a result of declining funding results in a shift in subsidy from the less expensive models to the more expensive models. While this effect has been tempered through the use of a separate fee assumption for the lower division models, the recent rapid rise in fee assumptions has produced a great deal of instability in funding at a model level.

- The biennial process of updating model costs on the basis of a new Resource Analysis also introduces a measure of funding instability. Campuses are much more sensitive to this instability than they once were because of a changed inflationary environment. It was much easier to adjust to a real decline in funding per student when nominal inflation rates were higher. For example, a six percent increase in funding per student in the face of a ten percent inflation rate is more easily managed than a two percent reduction in funding with a two percent inflation rate.
  The current approach of disconnecting the tuition cap from the funding formula is not working and there is a need to incorporate a relationship that is acceptable to the Governor and the General Assembly.

- The general logic of the formula assumes that we can address the differences in the academic missions and financial needs of campuses by funding enrollments at a model level. But there has always been a substantial amount of variation in the costs of programs assigned to a given model. For example, the Baccalaureate III model, which includes advanced undergraduate courses in various science and other costly programs, includes programs whose actual costs are less than the costs of programs assigned to the Baccalaureate II model, which is funded at a lower rate. A redefinition of models and the programs assigned to them could make the model logic more valuable, but the transition could sharply increase the instability in campus funding.

- We seem to be experiencing disproportionate losses in funding for medical schools as a result of reductions to other health education line items and changes in Resource Analysis driven by changes in accounting rather than real changes in spending. These are in addition to the losses stemming from the increases in fee assumptions used in the SSI formula. Cumulative losses in funding per medical student have been enormous and have not been offset by increases in enrollment as they have in many other models.

- The failure of the state to fund the 50,000 FTE increase in enrollments is unprecedented and is the principal source of instability in the formula calculations today. This, combined with the enrollment-driven nature of the formula as noted in the first bullet, has resulted in major shifts in funding for programs and institutions that far exceed the cost changes from the enrollment growth. If future funding for enrollment growth is unable to be appropriated, then there must be some moderation in the funding shifts caused by the enrollment growth. One way of accomplishing this would be to move exclusively to a five-year enrollment average when funding for enrollment growth is not appropriated.

- A few comments regarding graduate and professional education models, beyond the reference to the medical models, are appropriate; however, a fuller discussion of how these models integrate with the other instructional models should be reserved for the consultation's examination. The doctoral system now in place is generally satisfactory, as long as the percent of SSI allocated to that model is not further reduced. The masters' models should be treated like undergraduate models with enrollment increases allowed to occur and inflation increases to be funded. There are too many important job categories that require a masters as the "working degree" to not follow such a policy.

It is worth noting that the formula does not answer all questions, even all important questions. Over the years, we have found that some policy concerns that were not handled well by the formula were best handled through separate appropriations. Research Challenge dealt with the need to address the need for an increase in sponsored grants. Access Challenge dealt with the need to reduce the share of costs borne by students at two year campuses. Success Challenge provided an incentive to increase degree completion. Jobs Challenge provided funding for noncredit jobs training. As we review deficiencies in the formula, we need to decide whether those deficiencies are addressed elsewhere.

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