

**Ohio Board of Regents
State Share of Instruction Consultation
August 30, 2005 -- DRAFT Notes**

Note: Consensus recommendations and decisions are presented in bold-face below.

1. Welcome and introductions
2. Review of the agenda
 - 2.1. Much of the Consultation's work will be done through subcommittees.
 - 2.2. Dr. Brenda Albright will serve as the facilitator for the Consultation.
 - 2.3. This Consultation is atypical in that it has broader membership than past SSI consultations.
3. Developing the charge of the Consultation.
 - 3.1. The Consultation and its subcommittees must address some related studies mandated by H.B. 66, the FY 2006-07 biennial budget bill.
 - 3.2. The Consultation may express its recommendations on how to spend the \$30 million added to the SSI for FY 2007 – the first real increase in the SSI in years.
 - 3.3. Additionally, the Consultation is charged with helping to shape higher education policy through its recommendations. This is especially pertinent in light of the fact that Ohio is a comparatively undereducated state that has seen stagnant state funding for higher education while enrollments have risen by 50,000 students over the past six years.
 - 3.4. Historically, there have been different levels of consultations, each having a narrow focus and membership:
 - 3.4.1. Student Financial Aid Consultation
 - 3.4.2. Graduate Funding Commission
 - 3.4.3. State Share of Instruction Consultation
 - 3.4.4. Each of these groups generally make recommendations to the Higher Education Funding Commission (HEFC), which has broader membership and is charged with making recommendations to the Board of Regents that in turn makes formal budget and policy recommendations to the governor every two years as part of the biennial budget process.
 - 3.5. H.B. 66 established the Higher Education Funding Study Council, which is made up of legislators, select members and staff of the Board of Regents, select campus presidents, a representative from the governor's office, among others. H.B. 66 states: "The Council shall review all aspects of higher education funding contained in this act, including all appropriation items, and shall recommend any changes it determines are necessary. The Council shall also review the instructional and general fees as well as the room and board charges at the thirteen state universities, with the intent of setting limits on future increases in these fees and charges. The Council shall issue a report of its activities, findings, and recommendations to the Governor, the Speaker of the House of Representatives, and the President of the Senate not later than May 31, 2006."

- 3.5.1. The chairman of the Study Council has said that the work of the SSI Consultation should not get ahead of the work of the Study Council, lest the recommendations of these groups come into conflict. Nevertheless, the Consultation cannot afford to wait until the Study Council concludes next May—by then it would be too late to do anything substantive.
- 3.6. Overview of the SSI and Challenges
 - 3.6.1. There are five line items that make up the core of general state subsidy for all state colleges and universities. These are the State Share of Instruction (SSI) and the four challenges: Access Challenge, Success Challenge, Jobs Challenge, and Research Challenge, now called “Economic Growth Challenge”. The five line items were designed in large part to offer state decision makers a menu of policy levers to push or pull to emphasize or de-emphasize goals or outcomes according to their preferences and the needs of the state.
 - 3.6.2. The State Share of Instruction, which supports the cost of degree-credit instruction, is driven primarily by enrollments by level of instruction, as well as costs at the program level.
 - 3.6.3. The SSI does not employ benchmarking for program costs. The formula is descriptive, not prescriptive, and rewards efficiency through its use of statewide average costs per FTE student.
 - 3.6.3.1. Separate line items are used to fund other priorities.
 - 3.6.4. Because SSI funding has not kept pace with enrollment growth, programs that have capped enrollments, like medicine, lose funding as other programs grow and absorb more and more SSI dollars.
 - 3.6.4.1. But even campuses with growing enrollments can lose SSI funding if their growth is below the statewide average enrollment growth rate.
 - 3.6.4.2. The absence of new money has resulted in a watered-down SSI. Per-FTE funding has been reduced more or less across the board for all sectors.
 - 3.6.5. It was noted that unlike K-12 education, the legislature never talks about adequate funding per higher education student. This may be because the higher education community hasn’t effectively emphasized what this adequate level of state support might be. This should be done in a clear and unambiguous way.
 - 3.6.6. There was some discussion about the use of funding formulas in other states and whether Ohio really needs a complex formula to disburse SSI funds to campuses.
 - 3.6.6.1. On some level, most states employ some sort of formula to disburse funds. Some formulas are much more complex than others. In Ohio, the SSI formula has largely sheltered the SSI from political considerations because it is truly enrollment-driven. The General Assembly appreciates the fact that we solve our macro problems before seeking money from them—and it’s the SSI formula that solves the macro allocation issue.
 - 3.6.7. The General Assembly perceives the SSI as funding for institutions instead of funding for students. But legislators tend to prefer the latter. Therefore, we need to more effectively describe the student benefits of the SSI as it relates to student fees.

- 3.6.7.1. It was noted that unlike the K-12 community, some members of the legislature do not view the higher education community as voters. Therefore, we must demonstrate that higher education also consists of voters.
- 3.7. The SSI formula was discussed in detail. The SSI formula only supports the instructional and general operations of campus budgets. These are the functions related to degree-credit instruction. The formula does not support campus auxiliary functions, which are expected to be self-financing. Auxiliary functions include residence halls, dining halls, student recreation centers, bookstores, parking operations, and the like.
 - 3.7.1. Enrollment – Due to flat funding from the state, the formula has recently reallocated state funds from campuses with enrollment growth below the state average to those with growth above the state average.
 - 3.7.2. Inflation – State support has not recently supported inflationary increases in campus spending. To the extent that inflation affects campus budgets, campuses will have to become more efficient; use reserves more, or obtain additional funding from students or private sources.
 - 3.7.3. Efficiency – The formula rewards efficiency. Campuses are reimbursed on the basis of statewide average costs; those with costs above the statewide average will experience pressure to bring costs in line with statewide average, or seek alternative ways to fund programs.
 - 3.7.4. Protection (also known as “buffering”) – The formula supports stability and predictability in campus allocations. Buffering through the use of the FTE averages and the 97% Stop-Loss protects campuses from losing share of SSI due to other formula factors.
 - 3.7.5. Student Share – The student share of costs has increased, primarily because the state has not provided funds for additional enrollments or inflation.
 - 3.7.6. Retention -- The SSI formula rewards campuses for retaining students, and for attracting students to higher degree programs.
 - 3.7.7. ”S.T.E.M.” enrollments – Formula rewards campuses for having enrollments in “S.T.E.M.” programs—science, technology, engineering and math and medicine—because these are high cost programs.
- 3.8. The key features of the empirically-based SSI formula were also outlined:
 - 3.8.1. Based on actual operating expenditures per credit hour, with student credit hours aggregated into standardized units called “FTEs” (full-time equivalent students).
 - 3.8.2. Student, faculty, financial data collected at course-section level; course-section data are rolled up into program-level aggregations.
 - 3.8.3. Enrollments in programs at all campuses are aggregated into one of 16 broader categories called “Models” (General Studies I...through Medical II).
 - 3.8.4. Determination of subsidy and subsidy allocations and calculation of average expenditure per FTE by model.

- 3.8.5. Since the state does not pay for 100% of the costs, a “local contribution” (a.k.a. “fee assumption”) is subtracted from average modeled expenditure.
- 3.8.6. There are five different “local contributions” – one for lower division undergraduates; one for upper division undergraduates, one for graduate students, one for Medical I, and one for Medical II.
- 3.8.7. All “local contributions” are derived from the upper division undergraduate amount, such that the state share of costs varies by model. Generally, state share is higher for upper division models and more expensive programs.
- 3.8.8. Sum the product of [FTEs by model X net subsidy by model] for all models by campus, and sum for the system.
- 3.8.9. Protection (“buffering”): Use greater amount determined by use of two-year and five-year FTE average, with the previous year’s enrollments being the terminal year of the FTE average.
- 3.8.10. Doctoral support determined not on an enrollment basis but is distributed on a block-grant basis based on historical enrollment levels.
- 3.8.11. Use the greater of plant operation and maintenance (POM) subsidy calculated on enrollment basis and on a subsidy/square foot basis.
- 3.8.12. Application of “hold harmless” or “stop loss” – provides floor below which state support will not drop, regardless of other changes in the system or to the formula
- 3.8.13. Some key issues:
 - 3.8.13.1. What is the proper classification of programs into models?
 - 3.8.13.2. Is the use of variable fee assumptions appropriate?
 - 3.8.13.3. What is the correct balance between growth versus stability?
 - 3.8.13.4. How to best reward particular preferred outcomes or behaviors (completion of courses; retention of students; enrollments in “S.T.E.M.” courses and programs)?
- 3.8.14. It was questioned whether local levy revenues at community colleges should be included in an analysis of average state and local costs, since much of these revenues are devoted to non-instructional, community-oriented activities.
 - 3.8.14.1. Local levy revenues often have restricted uses and sometimes are used in the same manner universities use endowment funds.
 - 3.8.14.2. It was suggested that these funds be excluded from such analyses because it could be interpreted as taking the funding responsibility off of the state and might send the wrong message to legislators that local dollars are available to offset state funding. Some legislators have used this logic to promote the reduction of state funding for wealthy K-12 school districts that have high local tax bases.
 - 3.8.14.3. Local levy revenues do allow community colleges to offer comparatively lower tuition rates than state community colleges, which do not levy local property taxes.

- 3.9. Recap of key 2004 SSI Consultation findings
 - 3.9.1. The 2004 Consultation developed a new set of draft models that greatly reduced the cost overlap that exists in the current model structure.
 - 3.9.2. The new set of models would not only improve expenditure integrity, but also would establish a better relationship between models and subjects.
 - 3.9.2.1. The 2004 Consultation found that it was impossible to optimize simultaneously both cost and subject goals. A pure subject orientation would result in a greater instance of cost overlap, unless additional models are added. But too many models would only make the formula overly complex.
 - 3.9.2.2. The new models would make it easier for targeted investments in key disciplines (i.e., “S.T.E.M.”).
 - 3.9.3. The 2004 Consultation ultimately decided not to formally recommend the new models to the Funding Commission because without additional SSI funding, it would have reallocated too much money and may have destabilized some campuses.
 - 3.9.4. The original subcommittee that worked on these new models will reconvene and possibly reorganize to reexamine the models and merits of a new structure.**
 - 3.9.5. It was noted that program quality will continue to be sacrificed as the SSI “soup” continues to be watered down. Nevertheless, Ohio’s campuses offer a great product, so it is important to demonstrate funding needs without being overly alarmist.
- 3.10. IUC position paper
 - 3.10.1. Strengths of the SSI
 - 3.10.1.1. The formula encourages collaboration and coordination.
 - 3.10.1.2. Provides basic instructional support, while other priorities are funded outside the formula.
 - 3.10.1.3. Unrestricted SSI dollars provide flexibility to campuses.
 - 3.10.1.4. The use of a single fee assumption across all types of campuses implies that the state is responsible for paying for the differences in costs attributable to different programs.
 - 3.10.1.5. Enrollment-driven aspect is an incentive to enroll students.
 - 3.10.1.6. Responsive to enrollment changes.
 - 3.10.1.7. The use of statewide average costs rewards campuses for keeping costs low.
 - 3.10.2. Weaknesses of the SSI
 - 3.10.2.1. The formula assumes that an increase in enrollments would necessitate an increase in state support. But state support has not kept pace with enrollment growth in recent years, leading to a dramatic drop in SSI per FTE student. Consequently, the formula has been transformed into a rationing device.
 - 3.10.2.2. Lack of benchmarking.
 - 3.10.2.3. Sharp fluctuations in the fee assumption that result from unfunded enrollments.
 - 3.10.2.4. Biennial update of Resource Analysis cost data creates some funding instability.

- 3.10.2.5. Much variation in the costs of programs assigned to a given model.
- 3.10.2.6. Disproportionate funding decline for medical schools.
- 3.11. OACC position paper
 - 3.11.1. Any new funding system should afford Ohioans the opportunity to reach their maximum career potential, and should help the state grow its talent pool.
 - 3.11.2. The guiding principals of a new system should reflect key principals and attributes:
 - 3.11.2.1. Promote convenient and affordable access to learning opportunities, including transfer and dual enrollment.
 - 3.11.2.2. Meet the demands of a changing economy, encouraging participation in postsecondary education by both traditional and non-traditional populations;
 - 3.11.2.3. Provide mission-sensitive and fair and equitable treatment for different types and levels of instruction in institutional funding allocations;
 - 3.11.2.4. Provide funding stability while encouraging and supporting responsiveness, programming, and enrollment growth consistent with Ohio's economic needs;
 - 3.11.2.5. Support student success attainment in a timely and efficient manner; and
 - 3.11.2.6. Support and reward efficient and effective institutional use of resources.
 - 3.11.3. Limitations of current system:
 - 3.11.3.1. It is descriptive vs. prescriptive;
 - 3.11.3.2. It offers a "one size fits all approach," e.g. the undergraduate fee assumption;
 - 3.11.3.3. It provides disparate funding for different models (because "we have always done it that way" vs. "what is the goal?");
 - 3.11.3.4. It offers no seed money for the start of new programs, especially those needed by the state's economy;
 - 3.11.3.5. It contains limited funding for non-credit education and training;
 - 3.11.3.6. It is complex and difficult to communicate;
 - 3.11.3.7. It should incorporate other existing core funding line items, e.g. Access Challenge and Success Challenge; and
 - 3.11.3.8. It should reward success on two-year campuses provided there are multiple measures of success for two-year campuses and that these metrics are sensitive to the demographics and entering skill levels of students.
 - 3.11.4. Strengths of current system should be preserved:
 - 3.11.4.1. Enrollment driven.
 - 3.11.4.2. Use of average costs that encourages efficiency;
 - 3.11.4.3. Funding growth balanced against the need for temporary stability and funding predictability.
- 3.12. The Consultation should work to develop a single policy paper.**
- 3.13. Return on Educational Investment (ROEI)

- 3.13.1. It is assumed that the additional \$30 million added by the legislature to the SSI for FY 2007 would be disbursed via the SSI but represents a down payment for the ROEI. After FY 2007, ROEI dollars would be separated from the SSI.
4. Organizing the work of the Consultation
 - 4.1. Timeline: The work of the Consultation should be completed by March 2006.
 - 4.2. In addition to the Higher Education Funding Study Council, there are also other mandates in H.B. 66:
 - 4.2.1. Section 209.64.96. Study On Distributing State Share Of Instruction Funds Based On Campus Administrative And Operational Efficiency
 - 4.2.2. Section 209.64.99. Study On Distributing State Share Of Instruction Funds Based On The Number Of Degrees And Certificates Awarded
 - 4.2.3. Section 209.65.03. Study On Providing Incentives For Certificate And Associate Degrees
 - 4.2.4. Section 209.64.22. State University Clinical Teaching
 - 4.2.4.1. Separate subcommittees will need to convene to work on these studies.
 - 4.2.4.2. It was agreed that the SSI consultation would create two subcommittees, one to complete the recommendations for the proposed revision of the SSI models (described in section 3.9.2 - 3.9.4 above), and a second to respond to the three legislative charges described in 4.2.1 - 4.2.3 above**
 - 4.2.5. Additionally, the Governor is set to begin his Partnership for Continuous Learning initiative, which will also require participation from the higher education community.
 - 4.3. The Consultation approved using designated substitutes when members are unable to attend future Consultation meetings.
 - 4.4. Future meeting schedule:
 - 4.4.1. September 29th
 - 4.4.2. October 26th
 - 4.4.3. December 1st
5. Other items
 - 5.1. Brenda Albright will make a presentation on other states' higher education funding systems at a future meeting.**
6. Adjourn.

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