

# **Senate Finance and Financial Institutions Committee**

## **Testimony of Ohio Board of Regents Chancellor Eric D. Fingerhut**

**May 8, 2007**

Chairman Carey, Vice Chairman Stivers, Ranking Member Miller,  
Members of the Committee:

My name is Eric Fingerhut, and I am the Chancellor of the Ohio Board of Regents. Thank you for this opportunity to testify regarding the higher education budget for Fiscal Years 2008 and 2009.

Because this is the first time I have had the opportunity to appear before this committee as Chancellor, I hope you will not mind if I add a personal note of gratitude to the Ohio Senate, to this committee, and to each of you. I had the opportunity to serve on this committee for eight of my ten years in the Senate. Much of what I know about state government I learned here, and most of my closest friendships in this building were forged here. I am truly looking forward to working with each of you, and helping this great committee pass a historic higher education budget.

I also want to acknowledge the unanimous support the Senate gave last week to H.B. 2. Many of you, led by Senator Padgett, the Chairwoman of the Senate Education Committee, worked very hard on shaping H.B. 2. In passing H.B. 2, you sent a clear message that you believe Ohio must build a world class system of higher education that will make our state a leader in the 21<sup>st</sup> century global economy, and that doing so requires new approaches and new leadership. The magnitude of the change you have voted for should not be underestimated. Everyone associated with the Ohio Board of Regents will work tirelessly to create the type of organization that you have envisioned.

More importantly, we will not flinch from doing what you have done – rethinking how we do business, and suggesting broad and systemic changes in our approach to higher education in order to move our state forward. We will not hesitate to challenge long-held beliefs or long-established practices. These changes will inevitably stir vigorous debate, as they should. But you have demonstrated your willingness and ability to consider such matters in a fair and timely manner, and we will reward your effort with more such weighty matters to consider in the future.

Indeed, the higher education budget that is currently before you poses many such important questions, and offers many important choices. Neither the executive budget submitted by Governor Strickland, nor the version of H.B. 119 passed by the House of Representatives, are *status quo* documents. Instead, both seek to do as much as possible in the limited confines of a single biennial budget to move higher education forward. While some elements of the two versions differ, the major elements of the executive budget and H.B. 119 as passed by the House share common principles and even many common details.

Let me just outline some of the major areas of agreement, as well as some of the key differences between the two approaches.

### **The Higher Education Compact**

As you well know, recent budgets have placed serious constraints on the basic source of higher education funding in Ohio – the State Share of Instruction (SSI). We may debate why this occurred, as I did when I served on this committee, but the negative consequences are readily apparent. Shrinking state support has caused record tuition increases. Today, as Governor Strickland pointed out in his State of the State address, our public universities and colleges cost 47% above the national average, hardly the calling card we want at the very time when the competition for talent and educated workers is heating up around the world.

At the core of Governor Strickland's budget proposal was a compact with higher education. The governor proposed the largest increase in SSI in over a decade. In exchange, he asked that our public colleges and universities restrain tuition and join together in a collaborative effort to achieve management efficiencies that would provide even more new money for direct instruction. The House of Representatives also proposed an increase in SSI, tuition restraint, and management efficiencies.

The total new funding Governor Strickland proposed for SSI was \$192 million over the biennium. This was distributed as an increase of 5% in the first year of the biennium and an additional increase of 2% on top of the 5% in the second year. The House proposed an increase of \$225 million, distributed as 2% in the first year and 10% in the second year. Governor Strickland proposed a tuition freeze in the first year followed by an increase of no more than 3% in the second year; the House switched these numbers. Both the governor and the House proposed management efficiencies of 1% in the first year and 3% in the second year.

We welcome the addition of new funds to the SSI as proposed by the House of Representatives. However, we urge the Senate to review the distribution of the funds and the specifics of the tuition restraint within the biennium. Many schools, particularly in the community college sector, have already responded to this initiative by freezing tuition for the coming school year. They should be rewarded, not penalized, for doing so. Moreover, it should be remembered, as Governor Strickland has emphasized, that a tuition freeze in the first year benefits students directly by lowering the base on which future increases are calculated, just as increasing the SSI in the first year raises the base on which future increases are calculated.

Finally, the governor's budget proposal attempted to give me the authority to negotiate the distribution of the SSI increase in a fair and equitable manner. Admittedly, the language in the bill as introduced was unclear on this point, and confusing in some respects. The House, perhaps responding to some of this confusion, distributed the SSI increase according to a flat guarantee. In other words, under H.B. 119 as passed by the House, each institution, two-year and four-year, receives 102% of their FY07 appropriation in FY08, and 110% of their FY08 appropriation in FY09. This distribution works well for the four-year sector, but does not work well for the two-year sector, which is much more enrollment driven, as is the state's existing funding formula. We recommend that the Senate distribute the SSI increases to the two-year sector differently, dividing it between a guarantee and an amount that flows through the formula. I would be more than happy to discuss this issue with you in greater detail at your convenience.

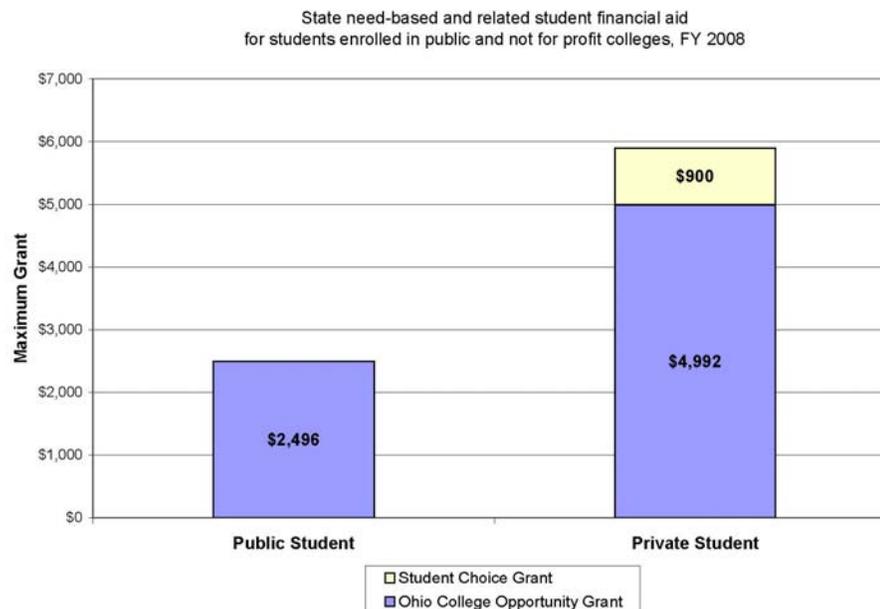
### **Financial Aid**

Holding down college tuition is only part of the equation. No matter how successful we are in limiting the sticker price, we will always have students who need our help to make college more affordable. That is why Governor Strickland proposed, and the House agreed, to continue implementing the new Ohio College Opportunity Grant (OCOG) program.

OCOG was the work of Governor Taft and the previous General Assembly. They began the process of phasing out the old Ohio Instructional Grant program (OIG) and phasing in OCOG with this year's freshman class.

OCOG represents a significant improvement in need-based financial aid over OIG. The grant is larger, more students qualify for the maximum grant, and more students qualify overall.

Both Governor Strickland and the House of Representatives included funding to enroll the next two classes of freshmen. In other words, by the end of the biennium, three full classes of Ohio college students will be receiving OCOG. In FY08, we will be spending \$140 million in General Revenue Funds on the OCOG program, and \$200.5 million on need-based financial aid overall. In FY09, we will be spending \$151.1 million in General Revenue Funds on the OCOG program and \$187.4 million on need-based financial aid overall. Both the governor and the House of Representatives agreed that these important funds should be restricted to Board of Regents certified programs, though no student currently enrolled in a non-certified program would be affected by this change. All told, over 100,000 students will be receiving need-based financial aid from the state under the budget you are considering.



Recognizing the important role played by private institutions in Ohio's system of higher education, the governor's budget continues the practice of offering grants to students in private schools that are twice the size of the grants received by students attending public schools. In addition, many students in private, not-for-profit schools, will continue to receive the Ohio Choice Grant. Governor Strickland had proposed that these grants be subjected to a means test similar to the OCOG program. The House agreed that the grants should be means tested, but they raised the standard of need. We appreciate the consideration given to this issue

by the House and will accept the compromise they have forged if it is acceptable to the Senate.

There have been some questions raised about the adequacy of the OCOG appropriations. While I do believe they are adequate, I want to be very candid and acknowledge that the OCOG program is new and our projections are therefore based on limited data. We also do not know how events like the projected layoffs in Brook Park and any other economic dislocations may have on our projections. With every day that goes by, we gather additional data. I will continue to keep you updated as we learn more.

### **Fill the Gap**

While the state plays an important role in making college more than a dream for all our students, so does the private sector. The executive budget calls for an additional \$8.5 million for the Ohio College Access Network. This will enable OCAN to raise additional private dollars to help students in need of financial assistance. I will be working hard with our partners at OCAN to develop a strategy to seek matching private donations.

We are very pleased that the House has supported this important initiative and urge the Senate to do the same.

### **AccelerateOhio**

Cost alone is not the only barrier to higher education. This is particularly true with adults returning to college to upgrade or learn a new job skill. A new initiative – AccelerateOhio – will work to connect all Ohioans to higher education, particularly ones who have not gone to college or have been away for many years. AccelerateOhio is designed to provide a series of low-cost, no-fail certificates as an easy vehicle for people to get back into college or into advanced training. AccelerateOhio also will provide funding for advanced industry-standard certificates that have the clear potential to both strengthen the workforce and draw students back into advanced education. This initiative is funded at \$2.5 million in FY 2008 and \$5 million in FY 2009.

We are very pleased that the House has endorsed this initiative, though we are concerned that an earmark was placed on the funds restricting our use of the full amount. We urge the Senate to leave the AccelerateOhio program unrestricted.

### **Choose Ohio First Scholarships**

The House of Representatives added a new initiative, the Choose Ohio First Scholarship program. As we understand it, the goal of the Choose Ohio First Scholarship is to increase the number of students studying and graduating in the so-called “STEM” disciplines – science, technology, engineering and mathematics. We welcome this initiative, and are grateful that the language of H.B. 119 as passed by the House calls for the details of the program to be developed collaboratively with the Senate and the governor. Governor Strickland has already invited our ideas on this subject, and we would welcome the opportunity to be engaged with the Senate as well as you think this issue through and decide how exactly to seize on this wonderful opportunity.

I would like to offer just two general thoughts at this time. First, it is important that a new commitment of funds of this magnitude – \$50 million per year – go to pay for new results, not for that which we are already achieving in Ohio. Unfortunately, this is easier said than done in the world of financial aid and scholarships. Second, we would like to make sure that our new investment targets keeping those trained students in Ohio to work, and attracts those who have left the state to come back home or new residents to come to our state.

### **Additional Items**

Allow me to mention just a few other items of concern.

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- We would ask the Senate to restore the Central State University and Shawnee State University supplemental funding to the original levels requested by the Governor. As you are aware, these two universities serve unique populations where even the slightest price increase can prevent students from going to college. Both institutions are in the process of executing plans that should lead them off supplemental funding in future years, but these additional funds remain critical for now.
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- The House of Representatives added language requiring that the Board of Regents study the “Challenge” line items – Access, Economic Growth, Jobs and Success – and seek Controlling Board approval in order to release funds for FY09. We are more than happy to study these line items, as indeed we intend to review the entire funding system for higher education in the coming year. However, institutions in this state need to know what funding they

will receive, and we therefore request that you remove the House language that restricts access to the funds in FY09.

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- The House reduced appropriations to the Higher Education General Obligation Debt Service by \$9.5M in FY08 and by \$10.4M in FY09. This line item pays for a portion of higher education's state debt service obligations related to state bond sales that have raised funds for capital projects. Traditionally, OBM has determined the amount of funds needed in this line item to ensure that the state's debt service obligations are honored. The reduction made by the House would place us below the level needed to repay bonds already issued, forcing us to make interest-only payments. This approach is detrimental to the state's credit rating and frankly unacceptable. I would urge the Senate to confer with OBM about the amount of appropriations needed for this important line item and to provide the required funding.
- The House of Representatives eliminated funding for the Women in Transition program. This small but important program provides an important lifeline to individuals recovering from economic hardships who receive educational, career readiness, health, and job training services at five colleges and universities. We urge the Senate to restore this modest – \$200,000 – funding.
- Governor Strickland requested that responsibility for adult career and technical programs be transferred from the Ohio Department of Education to the Board of Regents. This is consistent with the administration's plan to more effectively coordinate adult and workforce development activities. The House of Representatives agreed with the exception of the Adult Basic Literacy Education (ABLE) program. We urge the Senate to restore the language transferring ABLE to the Board of Regents.
- For the same reason, we would suggest that the House-created STEM initiative line item, which we understand to be a placeholder for new STEM high schools, and which is funded at \$10M per year, should, if it is retained by the Senate, be moved to the Ohio Department of Education.
- Governor Strickland proposed \$333,000 each per year for the John Glenn School of Public Affairs at Ohio State University, the Bliss Institute at the University of Akron and the Voinovich Center at Ohio University for the purpose of assisting in the creation of a

leadership program co-developed by these three institutions. Unfortunately, the budget as introduced did not adequately explain the purpose of these funds. Perhaps, for this reason, the House deleted this funding request. We urge the Senate to restore the funding for this important initiative and will provide suggested language that makes clear the purpose of these funds.

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### **Conclusion**

Mr. Chairman, as you well know, we have much to be proud of in our higher education system, but we also have much work to do. As a former member of the General Assembly, I know that you and your colleagues have many good ideas about higher education. I look forward to working with you on those ideas. Our success in advancing higher education in Ohio will depend on whether we are able to develop a shared set of objectives and strategies.

I would be pleased to answer any questions you and the members of the committee may have.