Transforming Higher Education

Collaborating for Results: A New Model for Higher Education

The University System of Ohio (USO) is one of the largest comprehensive public systems of higher education in the nation, serving almost 600,000 students and offering a full range of options from a GED to a Ph.D. The system includes 14 universities (with 24 regional campuses), 23 community colleges, and over 120 adult workforce education and training centers across the state. Because of a groundbreaking collaborative approach between Governor Kasich and Ohio’s 37 public college and university presidents, the Executive Budget for fiscal years 2014-2015 contains bold policy reforms to the way in which higher education funding is allocated to our public institutions of higher education. Collectively, these reforms position Ohio as a national leader in performance-based funding for higher education. This Special Analysis provides a brief discussion of the benefits associated with higher education, an overview of Ohio’s current higher education funding model, and a detailed review of the extensive policy reforms that are recommended to the funding model as a result of Governor Kasich’s innovative approach to higher education collaboration.

The Critical Role of Higher Education in Ohio’s Economic Recovery

The graduates produced by Ohio’s institutions of higher education are a tremendous catalyst for job creation and economic growth. Nationally, as shown in Figure D-1, individuals with higher levels of education earn correspondingly higher annual incomes. In fact, median annual earnings of bachelor’s degree recipients working full-time, year-round in 2008 were $55,700, compared to $33,800 for high school graduates [Education Pays 2010, The College Board].

Figure D-1: Median Annual Earnings and Tax Payments of Full-Time Workers Age 25 and Older

Note: Taxes paid include federal income, Social Security, Medicare, state and local income, sales, and property tax. Source: Education Pays 2010, The College Board
Additionally, college-educated workers are more likely to be employed than non-college-educated workers, as shown in Figure D-2. The national unemployment rate for high school graduates in 2011 was almost double that of bachelor’s degree recipients [U.S. Bureau of Labor Statistics].

**Figure D-2: Unemployment Rate in 2011, by Education Level**

![Unemployment Rate Chart]

Source: U.S. Bureau of Labor Statistics

The employment distinction was even greater for young adults between the ages of 20 and 24 in the fourth quarter of 2009, when the unemployment rate for high school graduates was more than 2.5 times higher than that of college graduates [Education Pays 2010, The College Board].

In addition to producing residents who earn higher incomes and are more likely to be employed than non-college graduates, public higher education also makes a significant contribution to Ohio’s total economy through substantial research and development expenditures. According to the most recent national data published by the National Science Foundation [Fifth Report on the Condition of Higher Education in Ohio, 2012], the state’s public universities rank sixth nationally in total research funding with combined annual research and development expenditures in FY 2010 totaling more than $2 billion. The Ohio State University ranked second nationally among all universities in terms of industry-funded research, with $120 million in annual research and development expenditures from industrial sponsors.

The quality job opportunities that public institutions of higher education offer for thousands of Ohioans also have a significant economic impact, particularly in rural communities, where a public college or university may be the largest employer in the region.

Beyond the economic benefits cited above, higher education creates the potential for the following positive outcomes:

- College-educated adults are more likely to receive better benefits from their employers, and to be satisfied with their jobs;
- A college education leads to healthier lifestyles, reducing health care costs for individuals and for society;
- Federal, state, and local governments receive increased tax revenues from college graduates and spend less on them for income support programs [Education Pays 2010, The College Board].
Higher Education Funding in Ohio: An Overview of the Current Model

The Board of Regents (BOR), led by the Governor’s appointed Chancellor, is the state agency that coordinates higher education in Ohio and is responsible for allocating state-appropriated funding to all public institutions of higher education. In FY 2013, BOR’s total estimated expenditures are $2,374.4 million, of which $2,308.0 million (97 percent) is comprised of General Revenue Fund (GRF) appropriations. The State Share of Instruction (SSI) is the single line item in BOR’s budget that provides unrestricted operating support to the state’s 37 public colleges and universities for the purpose of subsidizing educational and general expenses associated with providing subsidy-eligible students with a college education. The SSI is allocated according to distribution formulae that are prescribed by un-codified law in each biennial operating budget. Among BOR’s GRF appropriations, after removing debt-service line items, the SSI accounts for $1,751.2 million (85 percent) of BOR’s total GRF budget.

The SSI in FY 2013 is allocated within the three public college and university sectors (1-university main, 2-university regional, 3-community and technical) according to sector-specific formulae that distribute funds to each institution based upon factors such as the number of successful course completions, number of enrollments, “success point” benchmarks, doctoral/medical activity, and historical set asides. Figure D-3 provides an overview of the manner by which SSI funding is distributed among each factor within the three public college and university sectors in FY 2013.

Figure D-3: FY 2013 State Share of Instruction (SSI) Formulaic Distribution

Source: Am. Sub. H.B. 153 of the 129th General Assembly

The Challenge Facing Ohio

Until recently, the SSI was allocated almost exclusively according to an enrollment-based formula whereby the state provided a subsidy to each institution based upon the number of students enrolled. Performance-based factors were not included in the formula’s distribution and allocations were not tied to the institution’s ability to
achieve desirable outcomes. The first Kasich Administration budget made progress in this area by allocating an increasing portion of the SSI to student outcomes.

However, despite this recent progress, data clearly indicate that more work needs to be done if Ohio is to produce enough quality graduates with the skills needed to meet the new and changing needs of Ohio businesses. Currently, more than half of all Ohioans who enroll in college fail to earn a degree [Ohio Board of Regents]. Unfortunately, many of the students who fail to earn a degree also leave college with a significant amount of student loan debt. In addition, the percentage of Ohio adults with a bachelor’s degree or higher is less than 25 percent, well below the national average [U.S. Census Bureau]. The degree-completion issue is exacerbated by the fact that nearly 60 percent of Ohio’s projected job openings by 2020 will require some form of education and training credential beyond high school [Complete College America, Ohio 2011 data]. In fact, one study estimates that Ohio’s colleges and universities will need to increase the number of degrees conferred by 10 percent annually to meet workforce needs for 2018 [Georgetown University Center on Education and the Workforce]. These statistics highlight Ohio’s challenge and make it clear that our public colleges and universities must improve their graduation rates and increase the overall number of students who earn a degree in order to produce more students with the qualifications needed to enter the workforce.

Governor Kasich’s Call for Collaboration

Recognizing the importance of these issues and their direct correlation to Ohio’s economic outlook, Governor Kasich met with the leaders of Ohio’s public colleges and universities in the fall of 2012 and asked them to work together to envision the SSI not simply as a state subsidy, but rather as a strategic source of funding. It was his goal that this new approach would dramatically incentivize student success as well as increased course and degree completions while holding public institutions accountable for results. The Governor’s call-to-action for higher education leaders to collaborate, rather than compete, demonstrates his innovative partnership with higher education. It also demonstrates the Governor’s belief that higher education leaders are equipped with the knowledge, insight, and desire necessary to engage in a collaborative process to re-design the SSI formula in ways that incentivize desirable outcomes, prioritize student success, and achieve state goals.

Expanding upon the successful collaboration among higher education leaders that was achieved in the most recent capital appropriations bill (Sub. H.B. 482 of the 129th General Assembly), these leaders were re-convened as the Higher Education Funding Commission and charged with re-designing the SSI formula to respond to the Governor’s new challenge. The Commission’s first step was to collectively adopt the following Guiding Principles in order to clearly articulate the overarching principles that would guide their collaborative work in re-designing the SSI formula:

1. Incentivize colleges and universities to improve graduation rates, the number of graduates and the time it takes to graduate in order to produce more students ready to enter the workforce.
2. Increase Ohio’s competitive advantage by capitalizing on our existing strengths.
3. Strengthen our ability to respond to new or increased workforce development opportunities in the state.
4. Raise participation rates in higher education among Ohio high school graduates.
5. Attract the best and brightest students from Ohio and elsewhere to learn and work in Ohio.
6. Encourage colleges and universities to attract, prepare and graduate non-traditional and at-risk students.
7. Ensure that college is affordable for students and families.

Policy Changes within the Re-Designed SSI Formula

After several months of deliberation among higher education leaders throughout the state, the Higher Education Funding Commission responded to the Governor’s challenge by submitting a final report, signed by every public college and university president in the state, recommending numerous policy changes to the SSI
The recommendations of the Commission were strongly endorsed by Governor Kasich and are included in the Executive Budget for fiscal years 2014-2015. The following pages provide a detailed review of the most significant university and community college funding reforms contained within the budget.

**University Formula Changes**

Perhaps the most significant formulaic change proposed for universities in the fiscal years 2014-2015 biennium is the allocation of 50 percent of the total university funding for degree completions. This means that 50 percent of the funding available to universities within the SSI will be awarded according to the number of students who actually complete a degree at the university. This single change sends a strong message that our public universities understand that producing an increasing number of quality graduates must be their top priority if Ohio is to respond to changing workforce demands while remaining competitive in a global economy.

Figure D-4 provides a comparative overview of the way in which university funding is allocated among the various formulaic factors between the current formula (FY 2013) and the proposed formula (FY 2014).

**Figure D-4: University Formula Changes, FY 2013 to FY 2014**

In addition to prioritizing degree completions, other significant policy changes are contained within the proposed university formula for FY 2014. All of the formulaic changes were designed under the philosophy of simplifying the formula while holding institutions accountable for results, incentivizing course and degree completions, and eliminating historical earmarks and artificial safeguards that protect underachieving institutions. Highlights include the following:

- **Eliminate the Stop Loss**
  - This re-distributive mechanism, which reduces university allocations in each fiscal year in order to mitigate funding losses at poor-performing institutions, is eliminated.

- **Eliminate Historical Set Asides**
  - Two outdated earmarks for university regional campuses, the Access Challenge and square-foot-based plant operation and maintenance (POM), are eliminated. These previously earmarked funds, totaling more than $12.9 million in FY 2013, will now reward performance-based outcomes by flowing through the formula. The same two earmarks for university main campuses will be eliminated in FY 2016.

- **Adopt a Standard Three-Year Average**
In FY 2013, several different methods of averaging are used throughout the formula. In FY 2014, a standard three-year average is used consistently to reduce unnecessary confusion and facilitate appropriate planning at the campus level.

Using a phased-in approach, the following formulaic changes will be implemented beginning in FY 2015:

- **Proportional Credit for Transfer Students**
  - In FY 2013, degree completion funding is awarded entirely to the institution from which a student graduates, regardless of the amount of credits actually taken at that institution. In FY 2015, degree funding will be awarded proportionally to multiple universities at the time of a student’s graduation, based on the actual amount of credits taken at that university.

- **Apply At-Risk Weights at the Student Level**
  - At-risks weights recognize the various factors that make it more challenging for a student to complete a degree and reward institutions when those factors are overcome and the student graduates. These weights will no longer be applied at the campus level through a general campus index, and will instead be applied at the individual student level based on the student’s precise level of at-risk factors.

- **Remove the Separate Funding Formula for Regional Campuses**
  - Funding will no longer be set aside in the formula and distributed separately for regional campuses. Instead, all students in the university sector will be treated the same, regardless of where they are located.

- **Out-of-State Undergraduates**
  - In FY 2013, out-of-state undergraduate students are treated the same as Ohio undergraduates in terms of the amount of funding the institution receives when the student graduates. In FY 2015, institutions will be eligible for 50 percent of the degree completion funding for out-of-state undergraduates, but only if the student remains in Ohio for one year after graduation.

- **Award Credit for Associate Degrees**
  - In FY 2013, only a small number of main campuses earn credit for awarding associate degrees. In recognition of the value that associate degrees hold in contributing to a diverse and highly trained workforce, the new formula provides funding for associate degrees earned at all university regional and main campuses.

**Community College Formula Changes**

Like their university counterparts, community college leaders embraced the Governor’s challenge to re-design a formula that would promote meaningful change and reward outcomes rather than inputs. As a result, the community college formula will transition in the fiscal years 2014-2015 biennium from a system where the majority of funding is allocated based on the number of enrolled students and historically guaranteed set asides to a system that funds the completion of classes, certificates, and degrees. Figure D-5 provides a comparative overview of the way in which community college funding is allocated among the various formulaic factors between the current formula (FY 2013) and the first year of the newly proposed formula (FY 2014). The enrollment-based funding factor will be completely eliminated in FY 2015 and all of the community college funding will be allocated among 1) degree completions, 2) course completions, and 3) success points. The specific percentages allocated according to these three factors for FY 2015 will be determined during FY 2014 by community college leaders, in consultation with the Chancellor, for implementation in FY 2015.
Other significant policy changes within the proposed community college formula for FY 2014 include the following:

- **Eliminate Historical Set Asides**
  - Two outdated earmarks for community colleges, the Access Challenge and Supplemental Tuition Subsidy, are eliminated. These previously earmarked funds, totaling almost $54.5 million in FY 2013, will now reward performance-based outcomes by flowing through the formula.

- **Adopt a Standard Three-Year Average**
  - In FY 2013, several different methods of averaging are used throughout the formula. In FY 2014, a standard three-year average is used consistently to reduce unnecessary confusion and facilitate appropriate planning at the campus level.

Using a phased-in approach, the following formulaic changes will be implemented beginning in FY 2015:

- **Eliminate the Stop Loss**
  - This re-distributive mechanism, which reduces community college allocations in each fiscal year in order to mitigate funding losses at poor-performing institutions, is eliminated.

- **Develop a Degree Completion Incentive**
  - Enrollment-based funding will be completely eliminated in FY 2015 and a new provision will be introduced, at the recommendation of community college leaders, to reward the successful completion of an associate degree or certificate. Once implemented, 100 percent of community college funding will be awarded based upon completion-based factors.

- **Review Success Points**
  - The current Success Point incentive system, which ties community college funding to established measures of student achievement, will be reviewed and revised accordingly to ensure that the system accurately recognizes the range of activities that lead to course and degree completion.

- **Develop a New At-Risk Formula Weight**
  - In order to protect the access mission of Ohio’s community colleges, a new formula weight will be introduced to reward schools that are successful in enrolling and educating non-traditional and at-risk student populations.
Conclusion and Next Steps

As detailed in this Special Analysis, the SSI formula will experience significant performance-based improvements in the fiscal years 2014-2015 biennium, with a focus on incentivizing increased course and degree completions while holding institutions accountable for results. Perhaps most remarkable is the fact that these reforms were affirmed and recommended by every one of the 37 public college and university presidents in recognition of the challenges facing Ohio and the critical role that higher education can and will play in contributing to Ohio’s economic recovery. The policy reforms contained in the Executive Budget for fiscal years 2014-2015 represent the culmination of an unprecedented collaborative approach to higher education funding reform. As a result of their willingness to collaborate for the good of the state, the higher education community has positioned Ohio in a national leadership role in public funding reform for colleges and universities.

The Kasich Administration is grateful to Ohio’s college and university leaders for the valuable partnership that has developed throughout this endeavor. As the extensive SSI policy reforms are implemented during the fiscal years 2014-2015 biennium, Governor Kasich will continue to engage the Higher Education Funding Commission and the Board of Regents in strategic conversations to monitor the impact and success of these reforms. The partners will also be asked to consider additional initiatives that leverage the SSI to produce increased course and degree completions, a diverse and highly trained workforce, and continuing economic growth for Ohio.