

## **Ohio's Performance-Based Subsidy Formula for Higher Education**

Commission Facilitator Jones, Board Chairwoman Hightman, Interim Executive Director Sevenser, members of the Higher Education Finance Study Commission, thank you for the invitation to contribute to this important conversation about the role of state higher education subsidy formulas in supporting the goal of college completion.

I would first like to especially thank Interim Executive Director Sevenser, Representative Crespo, and Harper College for the personal invitation to address the Commission. I am impressed that this Commission has on it all of the key constituencies needed to make real change happen - legislators, university and community college presidents, trustees, business persons, non-profit and public service leaders. I admire your commitment to this important effort and am honored to be here.

I want to begin with an important caveat. The performance funding formula we have implemented for the University System of Ohio is still relatively new; indeed, we are just beginning the second school year under this formula. Therefore, I cannot speak to you today about results – these will be some time in coming. I can assure you that we are closely monitoring our experience, and will look forward to sharing results openly as they are available.

I also want to be clear that we do not think we have all the answers, or that the formula we have developed will not continue to evolve. Indeed, in one important area that I will discuss in a few moments – the definition of an “at risk student”, we are already adding greater detail to our formula. As new data becomes available, we are prepared to make further improvements to our formula.

There is no question that we are deeply committed to this effort and believe strongly that, while the details will continue to evolve, we do have the underlying principles right. I would like to spend most of my time here today discussing those principles. I will welcome the chance to get into greater detail in our discussion period, and I have also brought with me my colleague, Vice Chancellor for Finance Rich Petrick, who is the main architect of this formula, and who can provide additional and valuable details.

### **Ohio's 10-year Strategic Plan for Higher Education**

A core principle of higher education finance is that funding formulas must be systematically aligned with the goals and priorities of the state in order for colleges and universities to have the incentives and resources they need to achieve the targets set for them. And so it is important for me to emphasize that our new performance based formula was a critical step in the implementation of Ohio's *Strategic Plan for Higher Education: 2008-2017*, released on March 31, 2008. The plan is available on our website at [www.uso.edu](http://www.uso.edu).

I cannot overstate the extent to which the implementation of the *Strategic Plan* drives our work. Everything we do, in every substantive area of higher education policy, is measured against the goals of this plan.

The ultimate goal of the *Strategic Plan* is to marshal the full resources and capacity of higher education in Ohio to drive the future economic prosperity of our state. While there is no single indicator that encapsulates this perfectly, we selected the higher education metric that has one of the strongest correlations to economic success – the overall education level of our workforce. As you well know, a highly educated workforce both facilitates the growth of existing industries and generates the innovations that lead to new businesses and new products. It is our commitment to the people of Ohio that we will continually raise the percentage of our workers with college degrees, and raise our national ranking as an educated state. When we began this effort, Ohio was ranked 38<sup>th</sup> in the nation in the percentage of our workforce ages 25-64 with a college degree. Today, we have moved to 35<sup>th</sup> – demonstrating that we are moving in the right direction. There is no question that we still have plenty of work to do.

To meet our goal of raising the educational attainment of our citizens, we must do three things:

- (1) we must graduate more Ohioans from college;
- (2) recognizing that that we will not increase our college attainment rate if our graduates take their degrees and leave the state, we must keep a greater portion of our graduates in Ohio; and
- (3) because we will not keep every graduate in Ohio, we must become a net importer of workers with college degrees, whereas today we are a net exporter.

Each of these three elements is the responsibility of the University System of Ohio, and each is addressed in the *Strategic Plan*. The performance based subsidy formula that we are here to discuss today is a key strategy in helping us meet the first challenge – graduating more students.

### **The Importance of Using the Subsidy to Drive Completion**

Historically in Ohio, the main subsidy formula - known as the State Share of Instruction or SSI - has been largely based on the cost of enrollments as of the 15<sup>th</sup> day of each academic term (in FY 2011, SSI is a \$1.998 billion appropriation.).

As concern about college completion grew, my predecessors added a “bonus” amount over the basic formula that would be distributed according to graduation rates at the respective institutions in the University System of Ohio. This bonus pool was known as the “Success Challenge.”

While the Success Challenge was a step in the right direction, it was not large enough relative to the total state subsidy to significantly change behavior. That is why we collapsed the Success Challenge back into the main subsidy, and sought to apply the incentive for completion to the first dollar – and every dollar – we send to our institutions.

Is it fair to hold institutions accountable for completions? Will a financial incentive – even a significant one – change behavior?

We believe the answer to both questions is yes. There is a lot we can do at the institutional level to increase college completion levels. Better assessment, advising and placement policies help us make sure students are in courses for which they have the requisite preparation to offer a good chance of success. Close monitoring of student performance early in the term, with appropriate interventions and support, also make a demonstrable difference. In short, we know a lot about the factors that drive completion, and we are learning more all the time. The challenge is to make sure that our institutions are making these programs a priority. The performance formula grabs the attention of the entire institution and focuses their efforts on completion.

While institutional focus is the primary driver of our policy, there are other important principles at stake. Large numbers of drop outs or dropped courses represent the ultimate in financial inefficiency. As the number of students in higher education grows, we simply cannot afford to waste taxpayer dollars on courses that are not completed. And it is just plain wrong to take students' tuition dollars, or encourage them to go into debt, to take courses that experience and data suggests they have a high likelihood of not completing.

### **Key Elements of the Performance Based Funding Model**

Beginning in April 2008, representatives selected from the leadership team of University System of Ohio institutions began meeting with staff of the Board of Regents to revise the SSI formula to focus funding on successful academic outcomes, such as course and degree completions, instead of enrollments. These consultations produced separate formulas for each of the three University System of Ohio sectors – university main campuses, regional campuses of universities, and community colleges.

The results of the consultations were included in the proposed FY2010-2011 biennial budget (Am. Sub. H.B. 1) submitted by Governor Strickland to the Ohio General Assembly, and were adopted by the General Assembly without significant modification. The elements of the new system are as follows:

***University Main Campuses:*** The formula for the university main campuses will reward these campuses for successful course completion and degree completion, and reserve a small portion of funding for campus/mission-specific contributions to the state's *Strategic Plan*. Course completion predominates at the beginning of the implementation period, with degree completion gradually increasing as a factor. Rather than simply computing an "enrollment" FTE, the state will compute a "course completion" FTE for each campus. Course and degree completions by "at-risk students" will receive a heavier weight in the formula (how these students are identified is discussed further below).

The formula maintains funding for graduate and medical education, two important and distinctive elements of a university's mission, and makes the graduate education component more dynamic by basing its allocation on a number of success factors including degree completion and externally funded research expenditure.

**University Regional Campuses:** The formula for the regional campuses will reward these campuses for successful course completion for at least the next biennia. This will be done in the same manner as the course completion computation for university main campuses.

At some time in the future, the regional campuses would add a degree completion component to recognize their role in participating in low-cost “2+2” programs that would enable more Ohioans to achieve a baccalaureate degree through a combination of community college and regional campus credits.

The regional campus formula also reserves a small portion of funds for mission-specific contributions to the state’s *Strategic Plan*.

**Community Colleges:** The community college formula will evolve more slowly in order to accommodate two important trends affecting community college finances. First, the economic downturn has caused enormous enrollment volatility, with most campuses experiencing year-on-year, double digit percentage growth. Additionally, the reasons students are enrolling on community college campuses varies widely, from students seeking the traditional associate degree, to students planning to transfer to a university, to students seeking an industry certificate, to students just taking a single course to add or update a skill set. It is also the case that we have, in our system, increasingly been assigned the role of the “open access” institution, expected to serve the large number of underprepared, non-traditional students that we are encouraging to return to school to gain modern, competitive skills.

Beginning in FY2011, community colleges will receive a portion of their funds based on a new concept called “Success Points”, adapted from the State of Washington’s Momentum Point model. Success points are intended to measure the significant steps that students take toward higher education achievement. Points are earned at an institution for each of the following:

1. Number of students who progress from remedial courses to college level courses;
2. Number of students earning their first 15 semester credit hours of college level course work at that institution by a given year;
3. Number of students earning their first 30 semester credit hours of college level course work at that institution by a given year;
4. Number of students who earn at least one associate degree, from that institution, in a given year;
5. Number of students who completed at least 15 semester credit hours at that institution and subsequently enroll for the first time at a four year college or university in Ohio.

In FY2011, 5 percent of funding will be allocated using the Success Points approach. The percentage of the formula devoted to Success Points is expected to grow each year.

The community college formula will also reserve a small portion of funds for mission-specific contributions to the *Strategic Plan*.

### **The At-Risk Student Factor**

We are acutely aware that completion based funding carries with it an implicit risk that schools will shy away from accepting students who will require more assistance to be successful. We are determined to address this concern forthrightly. Rather than establish a lower expectation of completion – a strategy we find unacceptable – we chose to provide additional subsidy to schools that take and successfully educate such at-risk students.

In the initial performance based funding proposal, we identified “at-risk students” on the basis of family income. Recognizing that the characteristics of “at-risk students” are likely more complex than this one factor, we convened a subsequent consultation to study the issue further. This effort has identified additional factors, including academic preparation, race/ethnicity and age that are appropriate identifiers. We will continue to work to build a consensus on this issue, as well as to carefully track and report on the impact of the policy on the admission and success rate of students identified under either the original approach or the possible modification.

### **Phase In: Stop Loss**

While we are anxious to fully implement these new formulas, we recognize the need of institutions to have basic financial stability, while at the same time understanding that it may take some time to implement policies that can enable success under the formula. Accordingly, while implementing the formula fully in FY2010, we have provided that no institution may lose more than one percent of its funding per year. To put the matter another way, we have implemented a stop loss of no more than 99 percent of the previous year’s funding in the first year of the formula, 98 percent in the second year, and so on, until the stop loss is removed altogether or no longer relevant.

### **Next Steps: Performance Based Financial Aid**

While institutional commitment to completion is critical, so is the commitment of students to their studies. While there are some exceptions, states and the federal government have generally placed no more than modest restrictions linking financial aid to progress toward a degree.

Ohio has a long history of providing need-based financial aid to enhance the ability of low income students to obtain a college education. Unfortunately, our ability to support financial aid has been one of the areas to be strained by the budget challenges of the past two years. Nevertheless, we remain committed to this important area of support.

As we rebuild our financial aid capacity, we are working to design appropriate completion based incentives that complement the completion incentives we have implemented for our institutions. In crafting this new performance based grant program, Ohio’s experience so far with performance based financial aid is helpful. Most recently, we partnered with the Ohio Department of Job and Family Services to administer a TANF-funded pilot program for the 2008-2009 academic year at four of the University System of Ohio’s community colleges—Sinclair Community College, Owens Community College, Lorain County Community College

and Hocking College. This pilot is in the early stages of a comprehensive evaluation being performed by MDRC, a non-profit, education and social research policy organization that has evaluated similar performance based scholarship programs throughout the nation.

The 2008-2009 pilot was preceded by an earlier pilot conducted in 2006-2007. An unscientific analysis conducted of the earlier pilot painted an impressive picture regarding the efficacy of performance based scholarships. The students who were awarded performance based TANF scholarships in 2006-2007 out-performed their peers who did not receive a scholarship in many ways. Coupled with positive results obtained in other states, we are very interested in pursuing this new area of policy.

**Conclusion**

Thank you again for the privilege of participating in the work of this commission. I look forward to participating in the discussion today, and to learn from your work as well.