The history of Ohio’s funding formula may be beneficial in addressing this concern. The higher education subsidy formula in Ohio was instituted in the mid-1960s. At this time, the state committed itself to a system of public higher education where each large urban area would have its own state-supported university, while a two-year campus (a university branch, a community college, a state two-year college) would be located within commuting distance of every Ohio resident. Ohio already had six state-funded residential universities – Ohio State, Ohio University, Miami University, Bowling Green State University, Kent State University, and Central State University; and municipally funded (property tax) universities in Cincinnati, Akron, and Toledo. The Ohio Board of Regents was created to be a coordinating agency for these institutions, while the governance of each institution remained in the hands of a university board of trustees. Chief among OBOR’s responsibilities was the adoption and oversight of an instructional subsidy formula. The central piece of “state subsidy” was, and still is, labeled the State Share of Instruction (SSI). The formula relied upon enrollment as well as what it cost to teach different categories of courses (state-wide average actual cost). By the mid-1970’s, there were 16 different categories of courses (with accompanying enrollments), each subsidized at different rates. The state did not fund the total cost of instruction as estimated in the formula, however. The state subtracted from this overall cost of instruction an amount it expected to be funded from other sources – mainly from student tuition fees. However, this is where the formula deviated from a strict calculation. The student tuition fee amount was really a “mechanism” for deciding what portion (%) of the total cost of higher education the state would support. Each budget biennium, OBOR would submit its budget proposal to the Governor’s Office and request a reduction in the tuition fee mechanism (%) and an increase in the amount the state would appropriate for funding higher education. When the state budget process was completed, it was not uncommon for the tables to be turned. The state budget amount available for higher education through the SSI was never the amount of the formula calculation, but rather a constraint imposed by the realities of the amount of state tax and other revenue projected to fund the budget, as well as the realities of the political system deciding budget priorities.

The basic principle implied in the funding formula was that costs would increase in proportion to enrollment growth also assumed that costs would decline in proportion to enrollment decline – a principle that was severely tested. Both Ohio University and Kent State University experienced drastic enrollment declines in the early1970’s and the state legislature had to appropriate emergency funds to keep these institutions solvent. In the late 1970’s, the state legislature directed OBOR to study higher education costs with an emphasis on costs unrelated to enrollment (fixed costs) - particularly the cost of facility operation and maintenance.

As a result of this study, beginning in 1980, funds allocated for the purpose of plant operations and maintenance of facilities (POM) were allocated by OBOR on the basis of square footage space. Certain types of facilities including dormitories, dining halls, bookstores, athletic facilities, hospitals, etc. were (and are) not supported by the SSI. This was a reaction to the Ohio University/Kent State University situation and was intended to protect the SSI from unexpected
future enrollment declines. However, in 1992, OBOR modified the formula for POM by returning to an FTE enrollment basis for allocating maintenance funding. The change was proposed because of concerns that the system provided excessive encouragement for the construction of additional facilities. OBOR sought a system that rewarded institutions that demonstrated efficiency in the utilization of space. The end result of the 1992 modification was that the POM support would be calculated in two ways: 1) FTE enrollment at different rates for different category (model) of courses, similar to the pre-1980 calculation, except these amounts would be weighted by an activity index for the volume of sponsored research and non-credit job training undertaken at a campus; and 2) Square footage – space currently in place or space authorized by a current appropriation. Additional new space authorized in the future wouldn’t be eligible for square footage subsidy. However, if an institution takes subsidized square footage off line and does not replace it, it would retain half of the former subsidy for that space. An institution would receive the higher of the two POM calculations. If an institution benefited excessively from moving to an activity-based POM calculation, the increase would be phased-in over time. OBOR reasoned that institutions would be cautious about expanding facilities since future new expansions would not be supported and there would be a greater incentive to reduce space being maintained currently. This POM formula remained until changes in the structure and organization of OBOR occurred in 2007 when newly-elected Governor Ted Strickland directed the completion of a strategic plan for higher education. The plan called for a re-examination of the funding formula for the state’s public colleges and universities.

Beginning with the FY 2010 -2011 state budget, the SSI funding formula will be based upon an “outcome” funding model consisting of three enrollment components: 1) a course completion component, 2) a student success component, and 3) institutional specific goals and metrics components. There are now 26 course categories, or models, along with a stop-loss calculation that provides temporary stability to institutions when funding decreases precipitously. The new SSI funding formula is based on a total cost approach (the SSI category/model costs are based on a six-year average cost) to allocating funds by eliminating many of the weightings and steps in the prior model that provided differential funding based on individual characteristics at each institution. One of these eliminations is the POM calculation for facilities operations and maintenance.