EXECUTIVE SUMMARY
In FY2010 the Ohio Board of Regents (OBOR) implemented a new taxonomy for the distribution of the State Share of Instruction (SSI - subsidy). The Central Distribution Subcommittee (CDS) has been charged with examining the new taxonomy and presenting recommendations regarding the distribution of the SSI annual marginal change via the University budget model. In addition, CDS has been charged with developing specific recommendations to address the unintended consequence of budget erosion of support units’ budget due to the methodology currently used in the University budget model to fund inflationary Plant, Operations, and Maintenance costs (POM) for support units. This report presents the analysis and recommendations.

After extensive analysis and discussion, CDS recommends adopting the new subsidy taxonomy in the University budget model effective FY 2011, including detailed recommendations on the specific components of the allocation methodology. CDS also recommends that the funding for inflationary POM for support units be shifted from an internal reallocation within the support units to an assessment for colleges. This will be accompanied by a shift in revenue from the support units to the colleges.

BACKGROUND AND CHARGE
For 5 years, the Ohio Board of Regents (OBOR) has been working with Ohio’s universities to establish a different way of executing Ohio’s higher education funding formula. The Ohio State University had the privilege of participating in this process along with the other members of the Inter-University Council (IUC). The stated goal of creating this new approach was to review the previous subsidy model and recommend a model that has a balance of the following characteristics:

1. Have similar costs and characteristics
2. Be predictable and easier to manage
3. Be easier to understand and communicate

As a result of the consultations with the IUC, effective in FY 2010, the OBOR adopted a new taxonomy for distributing SSI to Ohio universities and colleges. This was done to more closely align SSI with the strategic goals of the OBOR. For FY 2010 however, the University continued to distribute the marginal SSI to colleges via the allocation methodology used prior to this change. This allowed the University adequate time to evaluate the impact of OBOR’s new taxonomy before making any changes to the University’s budget model. The Central Distribution Subcommittee (CDS) is charged with evaluating the new taxonomy from OBOR and developing recommendations for revising the distribution of the marginal change in SSI within the University budget model. The OBOR and members of the IUC are continuing to evaluate further changes to the higher education funding formula, including changes to the Medical funding model, targeted funding for degree completion and at-risk students, and funding
doctrinal programs based on quality indicators. When these recommendations are finalized by the OBOR, Senate Fiscal and CDS can evaluate their impact on the University budget model and present recommendations as appropriate. It is anticipated this will occur in early FY2011.

**OVERVIEW OF OBOR SSI TAXONOMY METHODOLOGY**
The specific changes in FY 2010 to the OBOR SSI taxonomy are illustrated below in Table 1.

<table>
<thead>
<tr>
<th>Table 1</th>
<th>Differences in OBOR SSI Taxonomy</th>
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<td>Models/subsidy categories</td>
<td>Previous</td>
</tr>
<tr>
<td>Academic subjects classified into models by level and cost (16 subsidy categories)</td>
<td>Academic subjects classified into models by <strong>content</strong>, level and cost (26 subsidy categories)</td>
</tr>
<tr>
<td>FTE</td>
<td>15th day credit hours: Fund all subsidy eligible FTE enrolled as of 15th day</td>
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<tr>
<td>STEM</td>
<td>No explicit weighting of rates</td>
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<tr>
<td>Graduate</td>
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<td>Funding</td>
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<td>Doctoral funding</td>
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<td>At risk students</td>
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<td>Medical 1 and 2</td>
<td>Funded on annualized headcount basis; Optometry included in Medical 1</td>
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</table>
OVERVIEW OF PROCESS USED TO DEVELOP RECOMMENDATIONS
CDS took a five-step approach in the development of recommendations. For each step, the pros and cons were extensively discussed. In step 1, CDS reviewed and reaffirmed the University principles that guide the distribution of resources and expenditures in the University budget model based on changes in enrollment and cost of instruction. CDS also reviewed the principles used by the OBOR in developing the new taxonomy for the distribution of SSI to universities and colleges. In step 2, CDS evaluated alternative methodologies for the distribution of SSI, tuition and fee revenue. In step 3, CDS examined the components of the new SSI taxonomy along with alternative methodologies. In both steps 2 and 3, the methodologies were evaluated for consistency with the University and OBOR guiding principles. In step 4, CDS assessed four alternative distribution methodologies using the components reviewed in step 3. The impacts of these methodologies were examined with a view to determine if any of the methodologies produced unintended consequences that could significantly impact a college(s) budget and possibly require mitigation outside of the University budget model. CDS also focused on the 3 clusters of colleges: Arts & Sciences, Health Sciences and Professional colleges. In step 5, CDS examined alternatives to fund inflationary plant, operation and maintenance (POM) costs for support units and colleges, including the distribution of subsidy and allocation of POM costs.

Step 1 – Review of Guiding Principles
CDS reaffirms the University guiding principles for the allocation of resources and expenditures as originally detailed in 1999.1/

- Allocation of resources should be driven by the academic mission.
- Significant portion of the revenues and expenses should be explicitly linked to the generating units.
- Portion of revenues should be dedicated to the support of university-wide services.
- Although the system should be mission driven, predictability and stability are also important characteristics.
- Appropriate oversight and accountability should be provided by the University’s governance and administrative structure.
- A carefully thought out transition is essential to the ultimate success of any changes in the budget system, including continuous review and improvement.

CDS affirms the University System of Ohio guiding principles.2/ The relevant principles for the funding formula are:

- Reward educational outcomes that align with Ohio’s priorities.
- Recognize differences in the cost of academic programs when funding educational outcomes or enrollments.
- Provide some level of predictability and financial stability for institutions.
- Incorporate and reward specific outcomes that may be of immediate priority for Ohio when these incentives are funded, such as the need for additional STEM or specific graduate programs.

In reviewing and discussing these guiding principles, it is acknowledged that the principles are not always consistent with each other (ex: predictability vs. mission-driven vs. linking revenues and expenses to generating units). Rather, these principles form a system of checks and balances for the allocation of resources and expenditures.
Step 1 Recommendation
CDS reaffirms the guiding principles for the allocation of revenue and expenditures as used by the OBOR and the University.

Step 2 – Evaluation of Alternative Budget Allocation Methodologies for SSI, tuition and fee revenue.
In Step 2, CDS evaluated 4 options for the distribution of SSI (Attachment 1).

Option 1: Maintain the previous subsidy taxonomy
Pros
➢ Maintains the status quo and is stable and predictable.

Cons
➢ Not consistent with how OSU earns SSI beginning in FY 2010.
➢ Not consistent with OBOR guiding principles and aligning funding with strategic goals.
➢ Not consistent with how OSU both reports and receives data from OBOR. OBOR will no longer maintain data in the old taxonomy; therefore, it will be difficult, if not impossible, to replicate in the future.

Option 2: Distribute subsidy, tuition and fees based on a historical percentage share of Present Budget Allocation (PBA) by College.
In this methodology, marginal subsidy, tuition and fees are combined and allocated on the historical percentage share of PBA by College. For example, if College X’s PBA is 15% of the total PBA of all colleges, then College X receives 15% of the marginal subsidy, tuition and fees combined.

Pros
➢ Simple, easy to understand, stable and predictable.

Cons
➢ Does not recognize the differential cost of instruction by academic program or student level.
➢ Does not consider enrollment changes.
➢ Revenues are not explicitly linked to the generating units.
➢ Not mission-driven or strategic.
➢ Not how revenues are earned by the University.

Option 3: Distribute subsidy based on the fee allocation methodology (combine subsidy, tuition and fees and allocate based on credit hours by fee-paying category)

Pros
➢ Simple, easy to understand, stable and predictable.

Cons
Do not recognize the differential cost of instruction by academic program which will result in budget erosion of high cost programs.

Not how SSI is earned by the University.

**Option 4: Adopt the new subsidy taxonomy while continuing to maintain the 60%/40% allocation for undergraded tuition, fees and SSI**

The details of option 4 are modeled in Step 3 following this section. Currently, the University budget model combines undergraduate subsidy, tuition and fees together. Sixty percent of the total is allocated to colleges via the fee allocation methodology, forty percent via the subsidy allocation methodology.

**Pros**

- Moving to the new subsidy taxonomy is consistent with how OSU receives revenue.
- Recognizes the differential costs of instruction.
- Consistent with aligning OBOR funding with strategic goals.
- Regarding the 60%/40% allocation of tuition, fees and SSI, no compelling reason to change. The reasons for the recommendations in the Senate Fiscal Committee report in March 2007 remain valid -- to prevent further erosion of funding for higher cost programs relative to the lower cost programs as a result of the decline in SSI relative to undergraduate tuition and fees.  

**Cons**

- The 60%/40% allocation may not exactly match how OSU earns the revenue.

**Step 2 Recommendation**

CDS recommends option 4 to adopt the new subsidy taxonomy while continuing with the 60%/40% undergraduate allocation of SSI, tuition and fees.

**Step 3 – Evaluation of individual components of the new SSI taxonomy**

Several components comprise the new subsidy taxonomy. CDS evaluated each separately along with alternative methodologies.

**Component 1 – FTE: Use end of quarter (EOQ) credit hours rather than 15th day credit hours**

**Pros**

- Consistent with how revenue is earned from OBOR.
- Consistent with the strategic goal of course completion.
- Small differences in results from 15th day credit hours (Attachment 2).

**Cons**

- Could lead to grade inflation to ensure students pass a class so the University will receive subsidy. This is not considered a significant concern as given the sheer volume of credit hours, gains from manipulating would be small.

**Component 1 Recommendation**
CDS recommends using end of quarter credit hours.

Component 2 – Cost of Instruction: Statewide six year average instructional costs versus OSU six year average instructional costs.

Individual subsidy categories can be calculated using either Statewide or OSU instructional costs averaged over six years. Universities report to the OBOR annually their instructional costs by academic program. The OBOR calculates the subsidy categories using Statewide average instructional costs.

Option 1: Weight by Statewide average instructional costs

Pros
- Consistent with the methodology OBOR uses to distribute SSI.
- Does not generate an incentive to manipulate the costs by spending more to receive more.

Cons
- Does not reflect OSU’s own academic cost structure.

Option 2: Weight by OSU average costs

Pros
- Reflects costs specific to OSU’s academic structure.
- Will better reflect our investments and costs resulting in a more mission-driven allocation over time.

Cons
- Could provide an incentive to manipulate the costs by spending more.
- Could increase volatility. However, the committee agrees these concerns are mitigated by the six-year averaging of costs.

Component 2 Recommendation
CDS recommends using OSU instructional costs averaged over six years.

Component 3: Weighting of STEM and graduate categories
The OBOR SSI taxonomy weights both STEM subsidy categories and graduate subsidy categories to hold both harmless in the new taxonomy. Over time, OBOR plans to phase out the weighting as actual costs by subsidy category are phased into the 6-year averaging of costs.

Option 1: Weighting of STEM/Graduate subsidy categories

Pros
- Consistent with how revenue is earned from OBOR.
- Consistent with the OBOR guiding principles and with the goal of holding STEM and graduate categories harmless during the implementation phase of OBOR’s new taxonomy.

Cons
- The weighted formula used may not be appropriate for OSU costs.
Option 2: No Weighting of STEM/Graduate

Pros
- Weights used by OBOR may not be appropriate for OSU.

Cons
- STEM and graduate categories are not held harmless and could potentially be negatively impacted during the implementation.
- Not consistent with how revenue is earned from OBOR.

As part of the analysis, CDS reviewed the weightings used by OBOR. Considerations included whether or not those weights are appropriate for OSU and if unique weights for OSU should be developed. CDS concluded that, at this time, it was not possible to quantitatively determine and support an alternative weighting methodology. In addition, changing the OBOR weights could lead to the need to review weights annually, something the committee felt was beyond the purview of CDS.

Component 3 Recommendation
CDS recommends using the OBOR weighting for both the STEM and graduate categories.

Component 4: Subsidy categories
In the new taxonomy, the OBOR created 26 subsidy categories by academic content, level and cost.
- Arts & Humanities (AH) 1 – 6
- Business, Education and Social Sciences (BES) 1-7
- Science, Technology, Engineering and Math (STEM) 1-9
- Doctoral 1-2, Medical 1-2 (no change)

These subsidy categories replace the 14 categories in the old taxonomy by level and cost.
- General Studies 1-3
- Baccalaureate 1-3
- Masters 1-3, MPD 1
- Doctoral 1-2, Medical 1-2 (no change)

CDS considered the option of grouping the new subsidy categories into 6 categories grouped by academic contact and level (AH ugrad/grad, BES ugrad/grad, STEM ugrad/grad).

Option 1: Use all the new subsidy categories

Pros
- Consistent with how OSU earns the subsidy from OBOR.
- Accounts more accurately for cost of instruction.
- Consistent with recommendations to use OSU costs and weighting of STEM & graduate categories.
Cons

- Using 26 categories can be considered as a more complicated system than the 14 categories used in the former taxonomy.

Option 2: Group the new subsidy categories into 6 categories grouped by academic contact and level (AH ugrad/grad, BES ugrad/grad, STEM ugrad/grad).

Pros

- Simpler.
- Potentially causes much less volatility.

Cons

- Revenue does not precisely follow the costs and could shift revenue away from the higher cost academic programs.

Component 4 Recommendation
CDS recommends using all 26 OBOR subsidy categories with no grouping.

Step 4 – Evaluation of 4 methodologies
The 4 methodologies are displayed in Attachments 3 and 4. FY 2010 data is used for all methodologies. Attachment 3 displays a summary by methodology combining Graduate SSI, 40% of undergraduate SSI, fees and tuition allocated via SSI methodology, and 60% of undergraduate SSI, fees and tuition allocated via fee methodology. Attachment 4 provides the detail of each component. Each methodology displays the results of distributing the same amount of marginal revenue of $21.3M of SSI, tuition and fees combined, excluding doctoral subsidy since no changes are proposed yet in the OBOR taxonomy for doctoral subsidy. $21.3M represents 3% of total FY 2009 PBA of $633M. This marginal revenue of $21.3M is just one component of the net marginal resources. Other components include marginal indirect cost recovery, program, technology and differential fees, the central tax and allocated costs including POM, student services and research administration.

Baseline Allocation
This is the actual allocation in FY2010 by college including graduate SSI (excluding doctoral subsidy), undergraduate SSI, tuition and fees allocated via the 60% fee/40% SSI, Medical 1 and 2, and POM subsidy. It uses the old subsidy taxonomy including 15th day credit hours and the old subsidy categories. This is considered the baseline for comparison of the 4 methodologies.

Methodology #1 includes:

- End of quarter credit hours
- Statewide 6 year averaged costs
- Weighted for STEM and graduate enrollments
- All individual subsidy categories

Methodology #2 includes:
Methodology #3 includes:
- End of quarter credit hours
- Statewide 6 year averaged costs
- No weighting STEM and graduate enrollments
- All individual subsidy categories

Methodology #4 includes:
- End of quarter credit hours
- OSU 6 year averaged costs
- No weighting STEM and graduate enrollments
- All individual subsidy categories

Methodology #2 is based on the recommendations detailed in step 3. The other methodologies illustrate alternative options.

Discussion of Impact on Colleges
CDS reviewed the variances of the four methodologies on individual colleges as compared to the FY 2010 original allocation to determine if there were any unintended consequences or significant fluctuations.

For the Colleges of Arts and Sciences, CDS focused the review on the total of the colleges since those individual colleges are in the process of moving to a new academic structure with the budget for the Colleges of Arts and Sciences administered by the Executive Dean. Minimal variations were found among the four methodologies for the Colleges of the Arts and Sciences. For example, for the Colleges of the Arts and Sciences the variances were no more than $145K on a PBA base of $261M, which is less than 0.06%, both comparing between methodologies and comparing to the FY2010 original (baseline) allocation.

For the Professional colleges, overall the variations are again minimal given the PBA base. Of note however, the College of Social Work has variations ranging from $80K to $139K. Although this is a small variance, it is negative and the total PBA allocation for Social Work is small ($5.9M).

The Health Sciences colleges in total had minimal variances. However, in reviewing the individual Health Sciences colleges, CDS found more significant variances in Pharmacy, Dentistry, Medicine, Optometry and Veterinary Medicine. Pharmacy and Optometry benefit significantly in all four methodologies compared to the FY2010 original allocation. In contrast, Dentistry, Medicine and Veterinary Medicine have lower allocations in all four methodologies. For example in Optometry, their original FY 2010 allocation was $109,438. Using methodology #2, Optometry’s allocation would increase by almost six times to $609,638, with similar results for methodologies 1, 3 and 4. This is a significant positive variance compared to their FY09 PBA of $5.7M. In contrast, Veterinary Medicine has an original FY2010
allocation of $411,720. Methodology #2 produces a result of only $154,115 on a FY09 PBA budget of $24.9M. These variances are influenced by Optometry moving out of the Medical 1 category into STEM 7. Pharmacy moves into STEM 8 from Masters 2. With the data currently available to the committee, it is difficult to determine if these results are a one year transition issue or longer term trends. Fluctuations of this magnitude may present budget challenges to Dentistry, Medicine and Veterinary Medicine.

**Recommendation**

CDS presents the following recommendations:

- CDS proposes to examine the Health Sciences variances in depth during the spring quarter 2010 to determine the specific reasons causing the variances (transition issues or longer-term trend). CDS will develop recommendations to mitigate these variances as needed. The recommendations would be finalized by May 2010 which should allow adequate time for inclusion in the FY2011 budget allocations.

- CDS recommends that one Health Sciences senior fiscal officer is included in this process to be a representative from the Health Sciences colleges on CDS.

**Step 5 – Evaluation of Alternative Budget Allocation Methodologies for the Distribution of POM revenue and costs.**

**Overview**

In the University budget model adopted in FY2003, colleges and support units received 100% of the funding for their inflationary Plant, Operations and Maintenance (POM) costs. Inflationary POM costs are the annual increases for centrally-provided utilities, custodial and maintenance services on space assigned to units. Beginning in FY2007, however, due to University budget constraints, only 75% of the inflationary POM costs were funded. Colleges and support units had to fund the remaining 25%. In FY2008 and FY2009, the funding was further reduced to only 50% of inflationary POM. Recall that although colleges had to fund the remaining 50%, they do receive revenue through the University budget model, while support units do not. Therefore, support units must self-fund their inflationary POM costs through internal budget reallocations. Since FY 2007, the cumulative impact to support units has been over $3M in internal budget reallocations resulting in a continuing erosion of their budget. Such erosion is an unintended consequence of the University budget model. In addition to the inflationary POM issue, the new taxonomy for SSI changed the way that POM is funded from OBOR. POM is no longer a separate component in the SSI; instead, what would have been separate POM support is built into the SSI.

CDS reviewed two issues regarding POM funding. First, CDS examined methodologies to fund the inflationary POM costs for support units. Second, CDS examined methodologies to distribute the revenue and costs of the inflationary POM for colleges given that the SSI formula changed. CDS only examined methodologies to fund inflationary POM. No changes are being proposed to fund changes in space, either the addition or deduction of square feet. Support units and colleges will still be responsible for funding changes in overall assignable square feet (ASF) within their respective areas. Also, colleges and support units will continue to be responsible for funding all maintenance and renewal assessments.
CDS evaluated 5 methodologies for the funding of inflationary POM with the outcomes displayed in Attachment 5. The total impact on colleges and support units uncommitted NMR (Net marginal resources) is shown. Since the various methodologies impact both sources and uses, displaying the change in total uncommitted NMR isolates the impact of each allocation methodology. In FY 2010, colleges had an uncommitted NMR of $14.8M. The 4 alternative methodologies decrease the uncommitted NMR from $0.3M to $0.5M, a change ranging from 2-3%.

Methodology 1 - Methodology that has historically been used in the University budget model.
This is the “status quo” option. The amount needed to fund 50% of marginal inflationary POM in colleges and support units is taken off the top of total marginal SSI received from the OBOR and distributed to colleges and support units to fund 50% of their inflationary POM. The portion of this revenue allocated to colleges is subject to the 24% central tax on marginal revenues. Then in the physical plant allocation, 100% of the inflationary POM is charged to colleges based on their assignable square feet. Support units would have to self-fund 50% of their marginal inflationary POM.

Pros
➢ Maintains the status quo.

Cons
➢ Continued erosion of the support units' budgets.
➢ Continued erosion of marginal SSI distributed through the credit hour methodology.
➢ Is not consistent with how SSI is earned in the new OBOR taxonomy.
➢ Not always stable. In years of high inflationary POM costs and low marginal subsidy revenue, this method can add to volatility of net marginal resources for colleges.

Methodology 2 – All marginal SSI flows through the credit hour model. No marginal POM revenue is allocated through the POM model. All inflationary POM (support units and colleges) is funded through a separate additional tax on the taxable marginal revenues of colleges. The physical plant allocation for colleges would be reduced to only include cost for changes in ASF and maintenance and renewal assessment.

Pros
➢ Distributing all marginal SSI through the credit hour model is consistent with how SSI is earned in the new taxonomy.
➢ The cost is passed onto units who can afford it. Those with higher marginal revenues pay more taxes at a flat rate. This could be considered both a pro and a con.
➢ Fixes the erosion of support units’ budgets.

Cons
➢ Additional tax rate could vary significantly from year to year with changes in POM costs resulting in volatility and unpredictability.
➢ Colleges are not directly paying for the inflationary costs of their own ASF.
Would produce a high tax rate (14% in FY2010 modeling). Although this is just a different way of allocating the same costs that are currently financed through the physical plant allocation, colleges could perceive the tax rate negatively as an unacceptably high tax rate.

Methodology 3 - All marginal SSI flows through the credit hour model. Inflationary POM for support units only is funded through a separate additional tax on the taxable marginal revenues of colleges. Inflationary POM costs for colleges continue to be funded through the physical plant allocation based on assignable square feet.

Pros
- Distributing all marginal SSI through the credit hour model is consistent with how SSI is earned in the new taxonomy.
- Fixes the erosion of support units’ budgets.
- Colleges continue to pay for their own inflationary costs through the physical plant allocation (i.e. based on occupied square footage).
- The additional tax rate is lower than methodology 2 (4% versus 14% in methodology 2).

Cons
- The tax rate could change significantly from year to year, but should be less volatile since only support units’ costs are being recovered.
- Methodology is complicated. Inflationary POM costs are recovered in two different ways – through a tax for support units and through an allocation for colleges.

Methodology 4 - All marginal SSI flows through the credit hour model. Inflationary POM for support units is funded through an additional cost pool in the physical plant allocation. Therefore the costs are allocated based on the ASF by college. For example, if college X has 10% of the ASF for all colleges, then they fund 10% of the total inflationary support unit POM.

Pros
- Distributing all marginal SSI through the credit hour model is consistent with how SSI is earned in the new taxonomy.
- Fixes the erosion of support units’ budgets.
- No perception issues with an additional tax.

Cons
- No direct relationship between support units inflationary POM and a college’s ASF. Those colleges with higher ASF will pay more with no correlation to their revenue or ability to pay.

Methodology 5 – 100 percent of support units inflationary POM is taken off the top of marginal SSI and distributed to the support units through the POM model. The remaining marginal SSI is distributed through the credit hour model. College and support units POM costs are recovered through the POM model.

Pros
- Fixes the erosion of support units’ budgets.
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- No perception issues with an additional tax.  
- Stability in the results, and minimal changes from the current methodology.  

Cons  
- Potential erosion of marginal SSI for the University.  
- Is not consistent with how SSI is earned in the new OBOR taxonomy.  
- Taking any revenues or costs “off the top” prohibits transparency in the budget model.  

Discussion of Impact on Colleges of the 5 Methodologies  

CDS reviewed the variances of the methodologies on individual colleges as compared to the FY2010 original allocation to determine if there were any unintended consequences or significant fluctuations. In FY 2010, 50% of inflationary POM is $1.85M ($1.17M for colleges; $0.50M for support units; $0.18M for classroom pool/alteration space). As a point of reference, total FY2009 ending PBA for colleges is $605M, and total uncommitted NMR for colleges in FY2010 is $14.8M. The results among the 5 methodologies are predictable. When costs are recovered primarily through a tax on marginal revenues (methodologies 2 & 3), those colleges with higher marginal revenues experience more significant impacts. When costs are recovered through the physical plant allocation (methodology 4), the colleges most negatively impacted would be those with low marginal revenue and high ASF. In methodology 5, although the fluctuations are not significant and no increase to the tax is necessary, CDS is concerned about the lack of transparency by taking revenues or costs off the top of marginal revenue and not adhering to the principles of the University budget model.  

CDS discussed methodologies 2 and 3 extensively. The difference between the methodologies is how colleges’ inflationary POM costs are funded, either through a tax in methodology 2 or through the physical plant allocation in methodology 3. In both methodologies, colleges will receive the additional marginal revenue that had previously been distributed to the support units through the POM subsidy model. CDS recognizes a strong correlation does not exist between a unit’s inflationary POM and their ability to control those costs which would argue for methodology 2. However, CDS is concerned with the perception of making adjustments to the tax rate. A tax is just an alternative method of distributing the same costs (either through a tax or through an allocation mechanism based on square feet). In methodology 2, the tax rate would be an additional 14% using FY 2010 results. In methodology 3, the tax rate would only increase 4%. Methodology 3 is a smaller alteration to the current budget model and the tax rate and, therefore, easiest to explain. In the review of methodology 3, although costs shift between colleges, the shifts are not considered significant in comparison to the overall PBA and NMR. If methodology 2 was recommended, the University community could become fixated on the perception of a large tax rate increase as opposed to the reality of a redistribution of how costs are recovered.  

Step 5 Recommendation  
CDS recommends methodology 3. All marginal SSI is distributed through the credit hour model. Inflationary POM for support units is funded through an additional tax on taxable marginal revenues of colleges.
Summary of Recommendations

CDS presents the following recommendations regarding the distribution of the State Share of Instruction annual marginal change via the University budget model.

1. Reaffirm the guiding principles for the allocation of revenue and expenditures as used by the OBOR and the University.

2. Adopt the new subsidy taxonomy and continue to maintain the 60%/40% split in the distribution of undergraduate tuition, fees and subsidy. This includes using end of quarter (EOQ) credit hours for the allocation of subsidy by college of instruction, using OSU 6-year average instructional costs to calculate subsidy rates, using the OBOR weighting for both the STEM and graduate subsidy categories, maintaining all 26 OBOR subsidy categories with no grouping.

3. Distribute all marginal SSI revenue through the credit hour model, and fund inflationary POM costs for support units through an additional tax on taxable marginal revenues of colleges.

4. CDS will further examine the Health Sciences variances, particularly regarding Medical 1 subsidy, in depth during the spring quarter 2010 to determine the specific reasons causing the variances (transition issues or longer-term trend) and present recommendations. CDS recommends that one Health Sciences senior fiscal officer be included in this process to be a representative from the Health Sciences colleges on CDS.

5. When the University budget is prepared annually for colleges and support units, results for subsidy allocation should examined both by college clusters and individual colleges for unintended consequences or wide variations from previous years that may cause financial hardship for colleges. Mitigation outside of the University budget model should be considered as appropriate.
Endnotes
   http://www.rpia.ohio-state.edu/br/docs/archive/brrecommendations.pdf

2. IUC Subcommittee of the OBR Subsidy Funding Consultation, “A Funding Formula for Ohio’s Universities Based on Outcome Goals”, September 2008
   http://www.rpia.ohio-state.edu/Univ-system/


Reference Documents
1. Office of Academic Affairs and Office of Business and Finance, “Budget Allocation Overview”
   http://www.rpia.ohio-state.edu/br/docs/08budgetprocess.pdf

2. The Ohio State University Academic Plan
   http://www.osu.edu/academicplan/preface.php

3. Budget System Advisory Committee Recommendations
   http://oaa.osu.edu/documents/BSACFinal_06_09_08_000.pdf

4. The Ohio State University Accountability Report to the University System of Ohio
   http://oaa.osu.edu/irp/reports.php

Attachments
Attachment 1 – Alternative methodologies for distribution of SSI, tuition and fee revenue
Attachment 2 – Comparison of 15th day credit hours to End of Quarter credit hours by College
Attachment 3 – Subsidy Taxonomy Methodologies – Summary of 4 Methodologies
Attachment 4 – Subsidy Taxonomy Methodologies – Detail of 4 Methodologies
Attachment 5 – Comparison of Allocation Methodologies for the Distribution of Inflationary POM Charges