Introduction

Over the last three years, Indiana has been identified by national higher education organizations and not-for-profit groups as a leader in performance based outcomes funding for higher education. Since the first performance based outcome metric was used in 2003, Indiana has continually improved and expanded performance based outcome funding to align the state’s needs in higher education with benefits to Indiana’s public postsecondary institution through state funding.

This document will provide those who are interested in Indiana’s performance based outcome funding model a history of the funding model, its origin and changes throughout the last 10 years, insights to the formula’s metrics and policy impacts from the institution’s and state’s perspective.

Just a note, often times through the document the performance based outcomes formula or model may be reference as performance based funding, performance funding formula or performance funding model. Please know that all of these terms are interchangeable and mean the same thing.

Funding of Higher Education in Indiana

Overall, funding for higher education is categorized into four main areas: campus operating funding, capital funding (both debt service for bonded buildings and repair and rehabilitation support), higher education related line items (mostly legislative mandates, administration of higher education and other smaller specific funded items) and state student financial aid.

The campus operating funding is the largest portion of the state’s higher education funding, accounting for nearly 71% of the 2013 higher education appropriation ($1.2 billion per year). The campus operating funding is where Indiana uses the performance based funding to drive dollars to institutions based on outcomes generated from the performance formula.

Currently, Indiana is exploring a performance based financial aid program that would enroll students based on income and need, but would require the students meet performance benchmarks to continue state financial aid support.

Before the Funding Formula

Prior to 2007, Indiana’s funding of public postsecondary institutions was primarily based on inputs, specifically enrollment of students at the 17 campuses across the state. Institutions would receive funding from the state as enrollment changed year to year. As more students enrolled in institutions, the greater the enrollment change and thus more funding would be driven to those institutions. The calculation set forth to provide enrollment funding used two 4 year averages (8 years of data), and
calculated the net change in enrollment. Included in the data used to calculate the net change in enrollment were historical enrollment figures and projected enrollment.

While enrollment change funding was a primary funding source for public postsecondary institutions, there were other mechanisms in higher education funding that delivered state dollars to campuses. These delivery methods came in the form of inflation adjustments, plant expansion, equity adjustments, and program (quality) adjustments. These other forms of additional funding opportunities did drive additional dollars to institutions but not to the degree of enrollment change.

Additional state dollars were provided for inflation adjustments in salaries, materials and supplies (including energy and other utility costs). As new degree programs were approved by the Indiana Commission for Higher Education (CHE) institutions could request and were often granted additional state support as the new programs were approved. As new state funded buildings were approved by the state, institutions that did not have operational costs included in their annual budget for the new building would receive state funding to support the building, but normally only for 2 years as the adjustment was normally adjusted into the base funding of the institution.

And finally, if policymakers felt that certain institutions were not properly funded even with enrollment change and other adjustments noted, an equity adjustment would be included that would try to equalize one institution’s funding level with other comparable institutions.

**Focus on Enrollment Change Funding**

As noted early, the largest pool of additional funding for institutions was enrollment change. The idea behind this concept was to reward institutions for growing resident enrollment. The CHE would collect data from each public postsecondary institution regarding prior enrollment and projected enrollment. A calculation was then used to determine change in enrollment (could change the timeframe used to measure the delta) creating a delta, or net change, in enrollment of resident students.

From here, CHE would use a rate that would be applied to the enrollment change. This rate was normally a figure that resembled a state funding per resident full time equivalent since the funding being provided to the institutions is to support resident students by subsidizing tuition and fees at in-state levels.

At some point, most likely prior to 2003, a handful of the major public postsecondary campuses in Indiana begin seeing stabilization in their enrollment, thus the enrollment change formula was not driving funds to these institutions. As other campuses were continuing to grow enrollment, new higher education funding was being driven to those campuses while the larger more stable campuses were not gaining in state funding.

The major campuses (at the time, IU Bloomington, PU West Lafayette, and Indiana State University) were labeled by CHE as “stable” campuses and were ineligible for enrollment change funding, but still eligible for other funding mechanisms noted earlier (program adjustment, plant expansion, etc). In addition, each stable campus was assigned an enrollment bracket that would adjust enrollment funding if enrollment fell below or rose above the bracketed amount for each campus. This new policy would
hold stable campus enrollment funding flat, but adjust if enrollment changed enough to warrant a
funding adjustment.

While the bracket system was a compromise for the “stable” campuses, overtime enrollment at the
stable campuses remained in the bracketed figures. The impact was new funding for higher education
continued to funnel to growing campuses, leaving “stable” campuses with little growth in their state
campus operating appropriation. At this point, the “stable” campuses needed another way to deliver
funding to the institutions without compromising the enrollment funding model.

The First Metric Emerges

As “stable” campuses looked to find ways to drive additional funding to their campus operating
appropriation beyond the enrollment change model, the idea of research support from the state
became a primary focus. At the time, the “stable” campuses did participate in research related activities
and felt that state support would help drive not only more dollars into their campus operating
appropriation but would confirm the state’s commitment to research activities and its potential
economic impact on the state.

Examining the “stable” campus’ expenditures on research related activities seemed the most
appropriate measure to provide additional funding, thus each “stable” campus provided the CHE with
historical research related expenditures to calculate the change in the level of spending over time. In
addition, the CHE only focused on external research related expenditures such as gift aid, grant funds,
private funds or contracts.

In order to reward “stable” institutions for increased research related activities, the CHE calculated a net
change in research related expenditures over a period of time. This was the first funding mechanism the
CHE used to reward an institution with funding based on historical data that was an outcome versus an
input. If “stable” institutions gained more research related funding (going out and getting the funding
versus students just walking in the door) the more they could gain in the research funding component
from the state.

While some may argue that the research related metric could be an input similar to enrollment change,
the only way institutions could gain more in funding was to increase research, which is a competitive
environment that obviously has a positive impact on a state’s economy through job creation, patent
development and potential revenue. Just growing enrollment over time does not guarantee, to the level
that research could, a return on investment to a state.

Thus, in the 2003-05 biennial budget, the first performance based outcome metric was included in the
overall higher education funding model. The amount of funding allocated for the new performance
metric only represented 1.0% of the total 2005 campus operating budget. Approximately $18.4 million
was driven to Indiana’s research institutions via this research expenditure performance ($6.2 million in
FY 2004 and $12.3 million in FY 2005). Even with enrollment change and other adjustments still a major
part of the funding model, this was the first step in a direction Indiana would be applauded for in years
to come.
In the 2005-07 biennial budget, research based performance was again included in the funding of higher education. At $27.5 million over the biennium ($8.7 million FY 2006 and $18.8 million FY 2007), the FY 2007 amount represented 1.6% of the total higher education campus operating appropriation going to performance based outcomes. Again, other input based metrics were still a major driver of funding to other non-research campuses throughout Indiana.

**The Model Begins to Change**

Before diving into changes to the performance based formula that Indiana began developing and updating starting in fiscal year 2008, there is an important point to make with regard to the development of the metrics and formula.

Throughout the development of the metrics and formula, from 2003 through today, all of the changes and policies decisions regarding the formula have been created and managed by the CHE and the members of the Commission. With guidance and support from previous Governor’s, numerous members of the Indiana General Assembly and the seven public postsecondary institutions, Indiana has managed and maintained a performance based outcomes formula that has not required legislative mandates or laws establishing how the formula or its metrics are created or funded (in terms of the amount allocated to performance based outcomes through the overall higher education appropriation).

Unlike other states that have mandated performance based outcome funding to their higher education institutions through law or legislative action, Indiana took a conservative and deliberate approach to creating and managing its performance based outcome formula. A long standing collaborative partnership between the state, the seven public postsecondary institutions, higher education policymakers and others helped forge the performance based outcomes formula with little to no legal or legislative requirements set forth.

With the advent of performance based research incentives in the higher education funding model, Indiana investigated the idea of using other performance based outcome measures to reward the seven public post secondary institutions beyond enrollment change and other adjustments. As noted earlier, the only metric rewarded improvement to research institutions; however, other metrics that could drive funds to all institutions (non-research and community colleges) were being discussed by the state. The metrics had to be applicable to all institutions and focus on the state’s priorities and goals for the institutions. While the idea to move funding for Indiana’s higher education institutions to performance based outcomes was new and innovative, many felt a slow transition away from the historic funding model to a new outcomes based model was the best route rather than an aggressive change.

Understanding the balance between moving to an entirely new funding model based on performance outcomes and ensuring stability in funding for Indiana’s institutions, a hybrid approach was developed that would continue to fund institutions based on enrollment change but include funding for improvement in outcomes aligned with the state’s goals. For the 2007-09 biennial budget, Indiana funded both the old model and the new model with the following metrics: Old Model: Enrollment Change, Inflation Adjustments and Equity Adjustments; New Model: Change in Overall Degree Production, Change in the On-Time Graduation Rate, Two-year Transfer Incentive and the Research Incentive. As previously practiced, only those growing campuses could participate in the Enrollment Change and only those research “stable” campuses could participate in the Research Incentive.
However, with the three new outcomes based metrics included in the funding model, all institutions could participate, thus providing potential funds based on performance outcomes versus inputs.

While the Research Incentive remained the same, the addition of degree attainment and completion drove institutions to improve degree production and on-time degree graduation rates while at the same time insuring that quality was not compromised. The Overall Degree Completion metric focused on associate and bachelor degrees produced over a period of time. Like the Research Incentive, data was used over a period of time and a calculation was derived that would determine a net change over two time periods using up to 5 years of data. The idea was to fund institutions that realized a net increase in degree production, taking into account potential peaks and valleys in performance data. Using longer term data allowed for a smoother trend line while still account for change in performance data. Finally, for the Overall Degree Completion metric, there is no time limit on when a student can earn their degree. An associate or bachelor degree conferred in a certain year could be counted in the metric calculation. Institutions could count a degree conferred in four years or ten years, therefore the metric promoted overall improvement in degree completion regardless of time.

For the On-time Graduation Rate Incentive, this metric focused on students who graduated from a 2 year institution in 2 years or a 4 year institution in 4 years. In order to account for a true on-time graduation rate, data collected for this metric only focused on first-time, full-time students and did not account for transfers or part-time students. CHE understood at the time that this metric focused on a niche group of students; however, the state’s goal was to improve the on-time graduation rate and focusing on those students mostly likely to graduate on time was the best method to reward improvement and focus on the state’s goals. Again, just as with the Overall Degree Completion Incentive, CHE used several years of data and created a net change calculation to rewards improvement.

Finally, a transfer component was included in the performance based outcomes formula to incentivize better transfer of students between Indiana’s community college system (2 year institutions) and our 4 year institutions. At the time, transfer continued to be an issue for students who obtained credit hours at 2 year public institutions but could not have all credit hours transfer to 4 year institutions. Indiana was continuing to improve articulation agreements with various public institutions, creating a transfer website to assist students with courses that transferred between institutions and begin to discuss a general education core curriculum that could be adapted to all public postsecondary institutions in Indiana. At the time, CHE proposed that the Transfer Incentive benefit the 2 year institutions that prepare and transferred students to 4 year campuses. By rewarding improvement in transfer figures and students 2 year campuses could gain funding in the formula.

A quick note that applies to not only the metrics used in the 2007-09 biennium, but all performance based outcome metrics used to date (excluding the research incentive), Indiana only uses data for residents students. Because higher education funding is tied to resident students, and provides a subsidy to the institutions in order to provide in-state resident tuition and fee rates, the CHE and others felt the formula and its metrics should focus only on resident students. Since the metrics reflect the goals of the state and improving Hoosier attainment and completion, the formula and its data should reward Indiana’s public postsecondary institutions for improvement in Hoosier performance. The formula does not include data for non-residents, international students or reciprocity students.
During the 2007-09 biennium, funding for the four performance based outcome metrics totaled $43.3 million. However, funding for Overall Degree Completion, On-time Graduation Rate Incentive and the Transfer Incentive were only funded in fiscal year 2009, not fiscal year 2008. In fiscal year 2008, the Research Incentive was the only funded performance metric at $10.6 million. In fiscal year 2009, total funding for all four metrics was $32.7 million with $11.5 million allocated towards the three new performance metrics. Research was still the largest funded performance based metric in the funding model. Roughly 2.5% of the overall higher education campus operating budget was allocated to performance based outcomes for fiscal year 2009.

**Enrollment Change is out of the Formula**

Heading into the 2009-11 biennial budget, the performance based formula again saw changes that reflected the priorities of the state, the need to continue to support outcomes based metrics versus input based figures and balancing the funding of higher education with the state’s overall fiscal situation.

A major change in the funding model was the removal of the Enrollment Change measures. This was a major step that took Indiana away from input based funding to truly an outcomes based funding of higher education. Even with only 2.5% of higher education state campus operating funding focused on performance based outcomes, moving to a truly outcome based funding model allowed for institutions to gain in funding through improvements in state priorities and goals focused on Hoosier attainment.

For the most part, the metrics put in place for 2007-09 were kept, but two new metrics were added to account for the elimination of the Enrollment Change Incentive and to promote accessibility for those students who might see higher education as a financial hurdle. On top of Overall Degree Completion metric, Indiana added the At-Risk (Low Income) Degree Completion metric to the formula to insure institutions were not too selective of students in order to benefit from the metrics in the performance formula. Several studies indicate that a successful and balanced performance based funding model must account for accessibility and insure at-risk students are not disenfranchised by the formula through admissions practices by institutions. Again, the new metric would focus on resident students only and would not have a time limit on degree completion. Those students who are Pell grant recipients when they graduate with a 2 year or 4 year degree are counted in the metric.

A major shift in the performance based formula was to move away from the Enrollment Change measure to a new measure that allowed for growth but did not award institutions simply based on enrollment change overtime. A new measure was developed that would account for growth while at the same time require students to meet completion requirements. Since the Enrollment Change incentive was a major component of funding to growing campuses, the state and CHE had to consider a metric that focused on enrollment but not based solely on headcount. The new metric was called Successful Completion of Credit Hours (SCCH) and could be rewarded to non-research campuses and 2 year campuses. The idea was to incentivize institutions to take on students but reward them only for students that successfully complete credit hours each year. The CHE did not dictate specific credit hours which would apply to the metric, so any credit hour taken by an undergraduate resident student would count in the metric data. Successful completion was considered a D- or better for the credit hour to
count in the metric and the calculation used in the formula converted credit hours to full time equivalent (FTE) figures based on a 30 credit hour academic year.

As the shift was made to SCCH from enrollment change funding, there were concerns raised by institutions that received funding through enrollment change that the modification might adversely affect funding from the state. Therefore, in the proposed performance formula with regard to growth, SCCH would be funded at 10% of the metric outcome and 90% would be through the old enrollment change formula for fiscal year 2010. For 2011, SCCH would account for 25% and the old enrollment change formula would account for 75%. Again the purpose was to slowly transition away from enrollment change to credit completion but insure a shock to the system would be avoided.

Even with these two major changes, there were some minor changes in the formula. First, while the Transfer Incentive was included in the funding formula in the past biennium, the state felt that incentivizing the 2 year institutions was not the best approach to the Transfer metric. Concerns were raised that it was really the 4 year institutions that should benefit from the Transfer metric as those campuses were taking on 2 year students and should be rewarded for accepting more transfer students. Therefore, the state shifted the Transfer metric to reward 4 year institutions versus 2 year institutions. With the SCCH metric in place, this dealt with the loss of the Transfer metric by creating a mechanism the 2 year campuses could gain in the formula by having students improve credit hour completion.

In addition, because of the change in enrollment funding moving to SCCH and the fact that Indiana’s 2 year institutions were educating more and more of Indiana’s workforce through non-credit hour work, the state created a Workforce Development Incentive to reward the 2 year institutions for expanding and promoting workforce development within Indiana. This again was a way to reward the changes occurring at the 2 year campuses by aligning the metrics with the state’s goal and rewarding the institution based on improvement.

The performance formula proposed and adopted in 2009-11 removed the old components of the formula that were considered inflation or program adjustments. The Equity and Inflation Adjustments were removed from the formula and Indiana finally completed a truly performance based outcomes funding model.

Even with the changes that occurred through the performance funding model, fiscal reality was at the forefront of budget discussions in Indiana in the spring of 2009. In most cases, performance based funding is intended to allocate new funds to institutions based on performance and not as a reallocation of the base. However, during the 2009 budget development, the state made reductions to the base budget of each institution to support the performance formula and account for the state’s fiscal situation. An across the board reduction of 5.21% was made to each institution’s base budget for fiscal year 2010 and a 2.53% in 2011. The result was a $66.2 million reduction in 2010 and a $31.2 million reduction in 2011. With these reductions, added back was funding for performance based outcomes as practiced in past biennium. In 2010, the formula added back $17.4 million (both performance based metrics and the old enrollment formula at 90%) and $27.8 million in 2011.

During the 2009-11 biennial budget, higher education campus operating funds from the state were reduced by approximately $48 million (net of the performance funding model). Even with the reduction to the base budgets for institutions, the amount of funding in fiscal year 2011 for performance based
outcomes was $19.7 million, which accounted for 1.6% of the overall state’s funding of higher education operations.

Small Changes and Big Policy Questions

As Indiana began to develop the 2011-13 budget, the state was still working to balance a budget in light of the fiscal situation facing the nation and the impacts of the recession in 2008. Even with the fiscal challenges ahead, the state made little changes to the performance based model used in higher education funding.

For the SCCH, the state decided to fund SCCH at 100% in the formula versus a slow progressive shift from enrollment change to SCCH. Both CHE staff and institutions agreed that the concerns raised last biennium were not materializing and a movement to SCCH at 100% would not impact the growing campuses in a negative manner. Also, the state opted to remove the Transfer metric due to the improved work by CHE, the state and institutions with regard to transfer of credit hours and articulation agreements. Since the Transfer metric was funded at lower levels then other metrics in the formula and the forward momentum transfer was taking in Indiana, the need for the metric in the formula was becoming less necessary. Finally, the state removed the Workforce Development Incentive because of moving SCCH to 100% and the amount of growth the 2 year campuses had realized over the last one to two years.

One minor adjustment was made to SCCH. In the 2009-11 biennial budget, courses taken by high school students, known as dual credit, were counted in the SCCH metric. The rate in which institutions were rewarded for improvement in SCCH was higher than the overall cost of offering dual credit at the high school level. CHE staff and policymakers felt that including dual credit in the SCCH metric might over pay an institution for credit hours taken at the high school level. Based on this discussion, CHE suggested splitting out the SCCH into regular credit hours completed by college students attending the college and dual credit hours completed by high school students enrolled at the high school. By splitting the SCCH into two distinct areas, CHE and the state could reward institutions for promoting dual credit success at the high school level, but at a rate that was more aligned with the cost of dual credit delivery.

As the CHE began to develop the performance based funding model, members of the Commission felt funding of the formula should be increased in order to promote change at the institution level. Concerns were raised by Commission members that 1% to 2.5% was a good start, but were not at a level that would drive change and action at Indiana’s public institutions to create greater Hoosier degree attainment, better on-time graduation rates and address affordability and student debt. The Commission decided, with support from the Governor and the state legislature to increase the funding of the performance based formula to 5%, or $61 million for each year of the 2011-13 biennium. Increasing funding for the formula to this level would, in the minds of policymakers and Commission members, result in new ideas and action by the state’s public postsecondary institutions to address the state’s needs and concerns.

As realized during the 2009-11 biennial budget development, Indiana’s fiscal situation called for flat spending in the 2011-13 budget, including higher education campus operating funding. Because of this call to hold the line on spending, the state needed to indentify a way to support performance based outcome funding but not increase the amount of funding to higher education. The CHE understood that
in most situations performance based funding called for new dollars. However, the Commission did not want to abandon the idea due to a lack of new funding for higher education. Therefore, the CHE with support for the Governor and the state legislature, made an across the board reduction to each of the institution’s base budget to fund the 5%, or $61 million, for performance based funding. By creating a performance funding allocation pool, institutions were then rewarded out of the pool based on their performance in the metrics for that biennium. Under this situation, some institutions gained in the formula beyond the 5% across the board reduction, while others whose performance lacked lost funding from the state.

The reductions made in 2009-11 and again in 2011-13 prompted many institutions to question the performance formula funding methodology and how the formula addresses mission differentiation. Even though Indiana has seven separate public postsecondary institutions, many of them play a different and distinct role for the state. Our research campuses, our 4 year baccalaureate campuses and our 2 year community college campuses play vital roles in the state and serve different students and purposes. At the time, the CHE felt the formula addressed mission differentiation by allowing some institutions to participate in certain metrics (research campuses could not participate in SCCH while 2 year campuses could not compete in research related funding). However, as noted in the document, the formula also changed biennium to biennium, making adjustments to the metrics in the formula and not holding the formula stable for several years. Institutions felt that too many changes did not allow them to make adjustments to their policies in order to address the goals and priorities in the formula. As a result of these concerns raised by the institutions, the state legislature passed the following language in the 2011 budget bill that required the CHE to evaluate the formula and make changes based on analysis conducted by the CHE:

“Before developing higher education biennial request instructions for the biennium beginning July 1, 2013, and ending June 30, 2015, the commission for higher education shall collaborate with the public state educational institutions on a study of the Indiana’s performance funding mechanism. The study shall involve a review of performance funding models in other states, detailed consideration of the funding measures and methodology, and recommendations for use of different measures and weighting of such measures to better recognize the unique missions of the various types of campuses (e.g., research; four (4) year comprehensive; two (2) year; and community colleges). Such deliberations shall result in recommended revisions to the mechanism being used in the biennium beginning July 1, 2011, and ending June 30, 2013. In order to incorporate these recommendations into the budget instructions and other preparations associated with the development of the biennial budget for the biennium beginning July 1, 2013, and ending June 30, 2015, this study shall be completed before December 2, 2011, and submitted to the state budget committee for its review and consideration.”

In the summer of 2011, the CHE began the process of addressing the mandate from the state legislature and working to update and amend the performance formula.

**The Road to a New Formula**

Not only was the CHE focused on updating and improving the performance formula, during the same time, the CHE started to update and revamp its strategic plan Reaching Higher. The CHE felt that these
Two actions should not be conducted separately, but rather the performance formula updating should be aligned with the updated strategic plan of the CHE. With this policy direction set in place, the CHE began the work of updating the performance formula and the strategic plan.

One of the first steps taken by the CHE, and one that played a key role in the development of the metrics was reaching out to the seven public postsecondary institutions to gain feedback and recommendations regarding metrics that could be used in the performance formula. During July and August of 2011, the CHE Commissioner met personally with each institution’s President to discuss thoughts on the current performance formula and metrics. This provided an opportunity for university leadership to suggest changes, revisions and updates to the metrics directly to the CHE. This input was compiled by the CHE as a starting point for potential revisions to the performance formula metrics.

Starting in July 2011, the CHE began working with an external consultant, HCM Strategists, to help develop an inventory and comparative analysis of other states’ performance-based funding models. From July through September of 2011, HCM Strategists worked on a multi-state assessment of the various performance based models used in other states. The report focused on states including Ohio, Tennessee, Pennsylvania and Washington, and provided an assessment of each state’s performance model and a comparison to Indiana. In addition, HCM Strategists suggested options for Indiana to integrate into its performance formula based on successful practices employed by other states with well established performance funding models. The final report by HCM Strategists was provided to the CHE in August of 2011 (Attachment C).

At the end of August 2011, the CHE had obtained initial feedback from each institution along with the HCM report analyzing other states’ performance funding models. Based on this work, the CHE developed a matrix that categorized potential changes to the performance formula around trends and common themes. All seven institutions agreed on several aspects including: keeping metrics stable over time and minimizing changes; including a metric that focuses on low income student degree attainment; the need for research funding; including other types of degrees beyond associate and bachelor degrees; and general support for performance funding in Indiana. However, even with overall agreement in some metrics and themes, there were suggestions and changes to the metrics that were institution specific and not across the board.

Using the matrix as a starting point for further discussion, the CHE again sought institutional feedback from the institutions’ Chief Financial Officers at a September 2011 meeting. This forum provided an opportunity for institutions to discuss proposed changes in a larger group setting and allowed the CHE to inquire further about suggested changes. Also, institutions were able to provide feedback concerning the HCM Strategists study and the preliminary findings in the report. In addition to CHE staff and institutional staff, several Commission members were in attendance at the meeting and provided reaction to the suggested changes made by the institutions and the HCM report.

Another tool for the CHE during this process was a roundtable discussion with other states that had well established performance funding models. In August of 2011, Indiana invited Pennsylvania, Tennessee and Ohio to discuss their experience with performance funding. Several groups attended the meeting including CHE staff and Commission members, legislators, legislative staff and institutional staff. The meeting provided an open dialogue with those states as to how they created performance funding
models, positive and negative effects of such models, and lessons learned based on their experiences. This opportunity to have face to face dialogue with major players in the performance funding initiative provided the CHE with relevant information to begin revisions to Indiana’s metrics.

From July through September of 2011, the CHE compiled a comprehensive list of potential revisions to the metrics in the performance formula from institutions, Commission Members, other states and the HCM report. With the benefit of this information, the CHE began to work internally to narrow the large list of potential metrics to a more manageable list that could be implemented for the 2013-15 budget. Three key areas were identified as focus points for the new metrics: Completion, Progression and Productivity. The CHE selected metrics which would fit into one of the three focus points while keeping mission differentiation as a guiding consideration. During the CHE’s annual retreat with all Commission members in October of 2011, feedback and thoughts on performance formula metrics were solicited and included in the development of the revised metrics.

Throughout October and November of 2011, CHE staff worked with a key group of Commission members familiar with the performance formula to finalize a list of revised metrics. The CHE selected metrics that fit within the three focus points and that were aligned with the CHE strategic plan Reaching Higher, Achieving More focusing on mission differentiation, completion, progression and productivity. As required by the legislation noted earlier, the CHE staff presented the new metrics to the State Budget Committee for review and engaged in detailed discussion with the State Budget Committee regarding the metrics and mission differentiation.

The following are the metrics that would be included in the newly updated performance based formula:

- **Degree Completion Metrics:**
  - **Overall Degree Completion** – (Affects all institutions)
    - Calculates the change in degrees conferred over a 3 year period rolling average (2006 through 2011; average of 2006 - 2008 versus 2009 - 2011).
    - For resident students only (no reciprocity)
    - Applies to 1 year certificates and associate degrees conferred at 2 year institutions
    - Applies to bachelor, master’s and doctoral degrees conferred at 4 year institutions
  - **At Risk Student Degree Completion** – (Affects all institutions)
    - Calculates the change in degrees conferred over a 3 year period rolling average (2006 through 2011; average of 2006 - 2008 versus 2009 - 2011).
    - For resident students only (no reciprocity)
    - Only those students who were eligible for Pell when they graduated from the institution
    - Applies to 1 year certificates and associate degrees conferred at 2 year institutions
    - Applies to bachelor degrees conferred at 4 year institutions
  - **High Impact Degree Completion** – (Affects four year research campuses: IUB, IUPUI, PUWL and BSU)
    - Calculates the change in degrees conferred over a 3 year period rolling average (2006 through 2011; average of 2006 - 2008 versus 2009 - 2011).
• For resident students only (no reciprocity)
• For specific degree types that are granted in STEM fields as defined by national standards (hybrid of Complete College America and National Science Foundation listings)
• Applies to bachelor, master’s and doctoral degrees conferred by the institutions

Note: High Impact and At Risk metrics will be funded independently at levels lower than the primary metric of overall degree completion.

- **Progression Points:**
  - **Student Persistence Incentive** – (Affects all non-research campuses)
    • Calculates the change in headcount over a 3 year period rolling average (2006 through 2011; average of 2006 - 2008 versus 2009 - 2011).
    • Applies to all resident undergraduate students (no reciprocity)
    • Progress point accumulation requires the student to complete all credits at the same institution. Dual credit courses and transfer credits are not eligible for the incentive.
    • For 2 year campuses, number of students who successfully complete 15, 30 and 45 hours
    • For 4 year non-research campuses, number of students who successfully complete 30 and 60 credit hours
  - **Remediation Success Incentive** – (Affects 2 year institutions)
    • Calculates the change over a 3 year period rolling average (2006 through 2011; average of 2006 - 2008 versus 2009 - 2011).
    • Applies to resident students only (no reciprocity)
    • Applies only to remedial and gateway courses in Math and English
    • Student must complete both remedial courses and gateway college level courses at the same institution
    • For 2 year institutions that provide remedial courses to students enrolled at the campus
    • Applies to students who successfully complete both remedial classes and gateway college level course, compared to the cohort of students needing remediation that year

- **Productivity Metrics**
  - **On-time Graduation Rates** – (Affects all institutions)
    • Calculates the change in FTE over a 3 year period rolling average (2006 through 2011; average of 2006 - 2008 versus 2009 - 2011).
    • Applies only to resident, undergraduate, first time, full time students (no reciprocity)
    • Measures the graduation rate for institutions based on type of campus
      • For 2 year institutions, the graduation rate achieved in 2 years
      • For 4 year institutions, the graduation rate achieved in 4 years
Institution Defined Productivity Metric - (Affects all institutions)

- Each institution will provide one productivity metric linked to their strategic plan
- CHE will review the proposed productivity metrics and discuss with the institutions in order to reach an agreement on individual metrics
- Productivity metric should focus on reducing cost of attendance for students

Please note that timeframe used in the new metrics covers 2006 through 2011. These years were used as part of the 2013-15 budget development and as new budgets are developed, those timeframes will be adjusted. The purpose of using 6 years of data was based on feedback from institutions. While some institutions wished to be judged on short term results, 2 years, others suggested using longer term data such as 10 years. CHE felt that 6 years was a reasonable length of time to show improvement in the metrics, allowing for any abrupt spike or drop in data to be measured against other more customary years. This also prevented a major shift of funding in to one institution because of an anomaly in the data.

Also, while deciding what metrics should be included in the performance based formula, the CHE urged the state and proposed in its next budget recommendation for 2013-15 to fund the performance based formula at 6% in 2014 and 7% in 2015. While the CHE was willing to continue to move Indiana forward in funding outcomes, the question was raised how the 6% and 7% would be funded. Would it be a reallocation of the base like in 2011-13 or would it be new money on top of the current campus operating appropriation? The CHE staff recommended at the time both options be on the table but also to explore a hybrid approach to funding the 6% and 7% with both new funding and a reallocation of the base.

Building the Model

Data

One of the major components of a successful performance based outcomes funding model is data. In order to develop a funding model that rewards improved performance in the key metrics noted above, data must be readily available and understandable in order to create a worthwhile and productive funding model.

Regardless of the source of data, either from institutions themselves or from a coordinating agency like the CHE, data will drive the funding model and thus how much funding will be allocated to each institution. In the case of Indiana, even while the metrics were being built and considered, CHE staff needed to determine where data would be collected to populate the model. For three of the seven metrics (the three degree completion metrics), data was already collected by the CHE, while the other four (remediation, persistence, on-time graduation rate and institution defined productivity metric) were data residing with each institution.

In an effort to allow institutions to provide their own data and confirm data collected and reported by CHE, CHE issued a set of performance metric schedules for each of the seven metrics. In each schedule for each metric, the CHE staff provided definitions and instructions on how data was to be compiled in
order to insure institutions reported information correctly and in a comparable manner. For those metrics for which CHE already had data in its reporting system, CHE pre-populated those schedules with information the institutions could verify and report back any changes. For those metrics where the institutions were required to populate performance metric schedules themselves, institutions were to follow the provided instructions and definitions to populate the metric schedule and provide back to CHE.

The goal of this step was to allow institutions to review and populate performance based metric data, which would then be supplied to the CHE to review, analyze and begin building the performance based outcome model. In past years, Indiana’s performance based model would provide performance metric schedules with per unit rates already included in the schedules up front. For example, in the degree completion metric, a figure of $3,500 for associate and $5,000 for bachelor degrees were used in the schedule. Institutions would then input their degree completion data, calculate the net change in degree production and then multiple it by the associate or bachelor degree unit rates.

The issue of including the per unit rate in the performance based schedules resulted in a performance based funding model that did not weight the performance metrics first based on CHE or state priorities, but created a full funding scenario that in 2011 resulted in nearly $120 million of new funding being requested by institutions because “that is what the model says.” While the model and its per unit rate figures did produce the $120 million figure, it muddied the waters for the performance based formula and raised questions as to the legitimacy of the formula. The question was raised “Why use a formula that produces a figure of $120 million and not support that figure in the budget recommendations?”

**Moving the funding needle**

In order to curb the “that is what the model says” mentality, CHE opted to gather performance based data first (without using a per unit rate) and review the information and data for errors and accuracy. In addition, the CHE and the Commission members were able to discuss how to weight each metric to reward performance in the formula. Finally, as a starting point for building the 2013-15 biennium budget, the CHE requested that the institutions assume the 6% and 7% funding of the performance based formula come from a reallocation of the base. This would mean, at least for the request made by the institutions, a 6% reduction in funding in 2014 and a 7% reduction in funding in 2015 be made to fund the performance based formula. The CHE did note during its deliberations in the summer and fall of 2012 that some moderate level of increase in higher education funding should be made but focused specifically on performance funding.

With data being populated by the institutions and thus submitted back to the CHE in the summer of 2012, CHE began working on reviewing the submitted information and determining how much funding of the 6% and 7% should be allocated to each metric. The idea was to select a portion of the 6% and 7% that would be allocated to each metric, thus creating a dollar figure for each metric that would be spread to each institution that saw improvement in each metric.

The amount of funding allocated to performance based outcomes would be based on the 2013 campus operating appropriation provided by the state, which is $1.215 billion. Part of the campus operating appropriation is the Indiana University School of Medicine and Dentistry (IUSM), which does not participate in the performance based outcomes model. For that reason, CHE removed funding for the
IUSMD to create a base funding amount for the formula of approximately $1.108 billion. From there, the 6% and 7% were applied to the based figure, creating $66 million in 2014 and $77 million in 2015 eligible for performance based funding.

**Weighting and allocating the metrics**

CHE determined of the seven performance based outcome metrics, what percent of the $66 million and $77 million should be allocated to each metric. The major factors of the formula that best reflected the goals and priorities of the state were greater degree completion and greater on-time degree completion. The allocation to each metric would apply to both 2014 and 2015 fiscal years. Below is the weighting of the performance formula metrics developed by the Commission:

**Completion:**
- Overall Degree Completion – 30%
- At-Risk Degree Completion – 15%
- High Impact Degree Completion – 10%

**Progression:**
- Student Persistence – 15%
- Remediation Success – 0%

**Productivity:**
- On-time Graduation Rate – 25%
- Institution Defined Productivity Metric – 5%

In total, degree completion metrics were allocated 55% of the formula and 25% to on-time degree completion, putting degree production overall at 80% of the formula. This allocation of the funding formula sent a clear message from CHE to the institutions that overall degree completion and on-time degree completion are high priorities of the state.

CHE now had a dollar amount for each metric and the raw data for each metric along with the calculation of the net change in each metric. CHE worked to create unit rates for each metric that would fit within the allocated amount set by the Commission members. In a way, CHE reserve engineered the unit rates by taking the total funding for each metric and the net change to begin calculating a unit rate. For example, in overall degree completion, the 30% allocation of the formula results in $19.9 million in funding. From there, CHE looked at the bachelor degree as the base rate for this metric. Assuming a rate of $8,000 for each bachelor degree produced, CHE then reduced the amount by half to get to an associate degree rate, and reduced the associate degree rate by half for the certificate rate. Going the other direction, adjustments were made the same way going from bachelor to masters, and masters to doctoral.

For at-risk and high impact degree production and on-time degree graduation rates, CHE created premiums based off the overall degree completion rates to account for the supplementary degree completion metrics. Regarding the on-time degree graduation rates, CHE created a two step requirement to be rewarded for this metric. If an institution dropped in their graduation rate, they would not be eligible for performance funding. However, if the graduation rate increased over the
allotted time, the change in the number of on-time degrees was used to calculate the reward in the formula.

For the student persistence metric, CHE used the same methodology for the overall degree completion metric, created a base rate and adjusting for movement between 15, 30 and 45 credit hours for 2 year institutions and 30 and 60 credit hours for 4 year non-research institutions. CHE also adjusted the rates for student persistence between the 2 and 4 year institutions.

For remediation, originally CHE planned on rewarding 2 year institutions for the number of students that complete both the remediation course and the gateway course. The idea behind this metric was to incentivize not only success in remediation but also in the next credit bearing course. While the overall number of students successfully completing both remediation and gateway courses increased over time, CHE dug further into the data and noticed a surprising trend. When comparing the number of students who successfully completed the gateway course to the original number of students who entered remediation courses for a given year, the percent completion was rather low. In addition, the trend in completion rates dropped over the 6 year period, even though the number of students increased. CHE realized that with a growth in enrollment at the 2 year institutions, while more students were getting through the gateway courses, even more student were needing remediation. Thus the numerator did grow, but the denominator grew faster. CHE decided that remediation should not be funded due to the trends in completion rates, but opted to keep the metric to incentivize the 2 year institutions to improve their remediation completion figures.

The final metric that took a considerable amount of time to value, analyze and allocated was the Institution Defined Productivity Metric (IDPM). The expectation with this metric was to collaborate with the institutions to develop their own productivity metric to be included in the performance formula. CHE selected the on-time graduation rate metric as their productivity metric; therefore, the institutions could select a metric that was tied to their long-term strategic plan and strived to reduce the cost of attendance to students. With seven separate institutions providing different metrics to measure productivity, it was difficult for CHE to make comparisons between the metrics. It was decided that this metric was critical to the formula, but needed refinement in the future. Consequently, only 5% of the performance based funding formula was allocated to this metric. Moving forward, CHE hopes to select 3 IDPM’s that institutions can choose from in the future and measure their improvement.

A policy that was established in 2011-13, and is being carried forward to the 2013-15 budget development, was not to penalize an institution with negative results in the performance based outcomes formula. Prior to 2011-13, if an institution demonstrated negative performance in a certain metric, the unit rate was applied to the negative result, thus taking money away from the institution. CHE decided if 5% of the performance funding formula was to come from a base reallocation as done in 2011-13, then the institution should not be double penalized for a lack of improvement in the data with a negative adjustment. This policy has been carried forward to the 2013-15 budget development, even though some or all of the performance outcome funding may come from base reallocations.

The Outcome and Moving Forward

With the weighting of the metrics set in place, the unit rates set for each metric and the data provided by the institutions for each performance based metric, CHE had all the necessary tools to run multiple
versions of the performance based outcomes model. This included scenarios with all funding for the 6% and 7% coming from base reallocation, funding coming entirely from new funding or hybrid approaches. CHE was able to determine which institutions saw significant changes due to the formula and make adjustments in the formula to insure unintended consequences were addressed along with insuring mission differentiation was at the forefront of the formula.

The model and metrics set in place today will be the same model and metrics in place for several budget cycles to come. One consistent theme CHE heard while discussing the changes to the funding formula during the summer of 2011 was to keep the metrics the same and not make changes that had been made in past budget cycles. As noted earlier in the document, each biennium the formula and its metrics changed, thus institutions had to adapt to metrics that judged and rewarded them. If metrics continued to change, how could the institutions properly focus on the state’s goal and potentially receive state funding if the state changes its mind every two years.

The CHE believes that a well built performance based outcomes formula should be stable, but also adapt to the changing goals and priorities of the state. That is not to say every time the legislature changes, or a new administration is elected the formula and its metrics should be adjusted. However, over periods of time the CHE should review and update the metrics to insure they continue to align with the state’s goals for higher education. CHE notes that some minor adjustments could be made to the metrics such as the time period to be used in the improvement calculation, the type of degrees used, etc. But the overall metrics and what they measure should stay consistent over time so institutions can adapt and improve, thus being rewarded via the formula.

With consideration of the amount of funding allocated towards performance based outcomes, Indiana has moved from funding performance outcomes at 1% to 7% over the last 10 years. Just in the last biennium, Indiana moved as high as 5% and hopes to be at 7% by the end of 2015. How much further will Indiana go with funding performance based outcomes? That depends on how the formula is funded, how much the performance formula impacts higher education attainment and the political and fiscal realities. Unlike other states, Indiana does not mandate by law the level of funding for performance based outcomes, so Indiana can adjust as necessary to balance those factors. Obviously this issue will be addressed during the development of each biennial budget, but indications are good that IN will remain a state that provides funding to our public postsecondary institutions based more and more on outcomes and not inputs.

A further question deals with data to support if the performance based outcomes formula is truly creating greater outputs such as degree production and student persistence. While Indiana has had outcome based metrics to fund a portion of higher education since 2003, and more so in 2007, the level of funding for the formula was so small that most institutions did not consider it a major factor of their funding. The 5% figure for 2011-13 was the first significant step in making the formula a driving force to improve academic outputs by the institutions. Indiana believes that as the level of funding for performance based outcomes is increased and a greater portion of the seven public postsecondary institution’s funding is dependent upon outcomes, Indiana should see a change in the outputs of our institutions. While the current data may not show such changes because of performance funding, recent activities of several institutions point towards the need to improve overall degree completion and Hoosier degree attainment. Below are some of the programs or initiatives Indiana’s institutions
have started in order to improve in the metrics outlined in the formula, as well as address the need to create affordable higher education opportunities for students:

- Indiana University (IU) will effectively freeze tuition for students on track to graduate in four years (November 2012).
- Purdue University (PU) has embraced its 4321 Graduate! Campaign, which encourages students to graduate in four years, maintain a 3.0 GPA, study two hours for every one hour in class, and engage in at least one leadership activity (October 2012).
- PU is currently exploring the opportunity to provide year-round academic programs to students, essentially going to year-round school versus the traditional fall and spring semester.
- The University of Southern Indiana (USI) continues to keep its tuition at the lowest rate among the four-year public institutions.
- Ivy Tech has developed its Ivy Institute of Technology to deliver industry-recognized certifications in high-demand areas, in manufacturing, computer technology and logistics.
- Ball State University (BSU) has developed an immersive learning initiative in which students take on real-world projects.
- Ivy Tech’s Associate Accelerated Program (ASAP) is a highly-structured associate degree program that enables low-income students to earn an Associate’s Degree in 10 months.
- Vincennes University continues to build its Early College High School model for at-risk students, providing college-level courses in the high school setting and potentially an associate’s degree when graduating from high school.
- Indiana State University (ISU), USI, Purdue, and most regional campuses adopted the Voluntary System of Accountability to assess student outcomes.
- IU’s regional campuses have developed on-time degree maps for a number of baccalaureate programs.
- House Enrolled Act 1220 requires state universities and colleges to reduce super-credit programs to 120 or 60 credits or to justify excess credits; the institutions have begun work to reduce super-credit programs.
- ISU has launched the Sycamore Guarantee, which promises eligible students they will be able to graduate on-time; if not, ISU will pay for remaining coursework.
- ISU reduced its 2013 tuition and fee rates from 3.5% to 1.5% to align with CHE recommendations of 2.5% per year.
- IU, BSU and the USI have lowered their summer-session tuition fees and expanded summer-session course offerings in an effort to promote on-time degree completion.
- Ivy Tech announced the establishment of its Virtual Student Success Center to improve the student advising functions and increase retention through early-warning and key-messaging.
- Indiana University is developing a unified portal for more than 80 online degree programs by its regional campuses.
- Ivy Tech and IU are collaborating on the shared provision of IT support and infrastructure.
- IU’s Blueprint for Student Attainment enumerates areas for collaboration among regional campuses, as well as with Purdue University and Ivy Tech.
- Ball State continues to lower costs by creating consumer-driven health plans and working on a green-energy initiative.
Attachments

Included with this document are several attachments that will help the reader understand many of the points made above. Below is a listing of the attachments and what information/data they provide:

- **HCM Report** – Report compiled by HCM Strategists for Indiana
- **Evolution of the Performance Funding Formula** – Metrics used over time in the formula
- **Weighting and allocation of the formula** – 2012 through 2015 (proposed) weight and funding of each metric
- **PFF allocation each year by metric** – Funding broken down for all metrics used since 2004
- **Weighting and Rates table** – Weighting and rates used to drive the formula
- ** CHE report on PFF to Budget Committee** – Report to the State Budget Committee on the new PFF
- ** Presentation on new metrics to State Budget Committee**