

INDIANA COMMISSION *for*
HIGHER EDUCATION

Indiana Performance Funding Review

A Report in Response to House Enrolled Act 1001-2017
December 14, 2017

Executive Summary

During the 2017 Legislative session, the Commission was charged to “review the metrics used in the performance funding formula to ensure those metrics are aligned with the state’s higher education goals.”

The performance funding formula (PFF) addresses mission differentiation by providing campuses with the opportunity to earn funding based on improvement in mission-related performance metrics. CHE proposes to keep the performance formula’s core metrics consistent, and make adjustments to how the metrics are calculated to ensure the long-term stability of the PFF.

The current PFF metrics are:

- Overall Degree Completion
- On-Time Graduation Rate
- At-Risk Degree Completion
- High-Impact Degree Completion
- Student Persistence
- Remediation Success Rate

This proposal is guided by the goals of CHE’s Reaching Higher, Delivering Value strategic plan. The proposal incorporates input from the leadership of each institution, the CHE commission members, performance funding experts and other thought leaders. If adopted, these adjustments would take effect for the 2019-21 biennium.

Convert At-Risk Metric to a Composite Calculation

- **Issues:**
 - **Issue 1:** The current At-Risk Metric measures the increase in the number of degrees awarded to Pell grant recipients. Since the Pell Grant is based on student’s financial need, the metric is vulnerable to large scale enrollment changes caused by the economy e.g., personal income.
 - **Issue 2:** Pell grant recipients are about half as likely to graduate on-time as their higher-income peers. There is currently no specific incentive in the formula to close on-time achievement gaps among these populations.
- **Proposed Solution:** Going forward, this metric will be calculated as a composite measure. To encourage institutions to enroll and graduate more Pell recipients, increases in the number of degrees awarded to Pell grant recipients will continue to be rewarded through the metric’s current calculation. Moving forward, the metric will also provide an additional bonus that rewards increases in the percentage of Pell grant recipients who graduate on-time. The rate-based bonus will carve out a specific area of the formula that controls for enrollment fluctuations and encourages closing the on-time achievement gap.
- **Rationale:** In Indiana, students who receive a Pell Grant are about half as likely to graduate on-time as their higher-income peers. The Commission’s strategic plan calls for

closing the achievement gap by 2025. To help ensure that college remains within reach for low-income students, the PFF incentivizes institutions to enroll more Pell recipients, and help them graduate on-time. This adjustment to the PFF will balance the need to graduate a larger volume of Pell recipients with the need to close the gap between the on-time graduation rates of low-income and high-income students.

Convert Persistence Metric to a Rate

- **Issues:**
 - **Issue 1:** The current Persistence Metric measures the increase in the average number of students who meet certain credit thresholds, regardless of the amount of time it takes students to meet the credit thresholds.
 - **Issue 2:** This metric is also vulnerable to large scale enrollment changes. Enrollment trends may make it difficult for institutions to succeed on this metric moving forward.
- **Proposed Solution:** Instead of the current measure of calculating the average increase in the number of students who meet the credit thresholds within any timeframe, this metric will be based on increases in the percentage of students who meet the credit thresholds within specific time periods. The metric will be a rate-based metric which will control for enrollment fluctuations. In addition, the threshold completion will be measured within 100% time for four-year comprehensive institutions and 200% time for two-year institutions to encourage more timely completion.
- **Rationale:** This change will more accurately measure the efficacy of institutions and will help mitigate large economic shifts that are outside of institutions' control. The on-time timeframe mirrors the Commission's 15-To-Finish initiatives and the state's recent financial aid changes to encourage on-time completion. Indiana's two-year institutions serve a larger part-time population.¹ The 200% timeframe for Indiana's two-year institutions aligns with the Commission's commitment to recognizing mission differentiation in the formula.

Add 90 credit-hour benchmark for Persistence Metric

- **Issue:** Between 60 credits and 120 credits, there are no incentives for four-year comprehensive institutions.
- **Proposed Solution:** A 90 credit-hour benchmark creates an incentive at the 75% completion benchmark for a bachelor's degree, similar to the existing incentive at the 75% completion benchmark for an associate degree.
- **Rationale:** This change will create uniformity in the payment methodology.

¹ In fiscal year 2015, 72% of degree-seeking undergraduate students were enrolled full-time at Indiana's public four-year comprehensive institutions compared to 35% of students at Indiana's public two-year institutions.

Create a STEM Metric for All Institutions

- **Issue:** The PFF has a High Impact Metric, which rewards institutions for students who graduate with degrees in STEM². Currently, this metric is only available to research institutions. Each institution has degree programs that they would consider high impact and that make unique contributions to the state and local economies.
- **Proposed Solution:** The High Impact Metric will include all institutions and will be renamed the STEM Metric. Research institutions will continue to benefit from the comprehensive list of STEM degrees. For the first time, the list of STEM degrees will be opened to four-year comprehensive institutions. Two-year institutions will be rewarded for credit-bearing certificates that meet the criteria for the Workforce Ready Grant (4 or 5 flames using DWD’s Hot Jobs methodology) and associate degrees in STEM. Metric outputs will be funded on a differential per-unit value by institution type and degree level.
- **Rationale:** This metric will reflect institutional missions and unique contributions to the Commission’s goal of producing credentials that align with the needs of the state’s economy. The third pillar of Governor Holcomb’s 2018 agenda identifies STEM education as a core component of workforce and education alignment: “every Hoosier student should receive an effective baseline education infused with STEM, intellectual curiosity, critical thinking, and other attributes that prepare them for lifelong learning.”

Eliminate Remediation Metric

- **Issue:** Two-year institutions have adopted the co-requisite remediation model. The co-requisite remediation model combines direct placement in college-level courses with extra academic support. Prior to the adoption of the co-requisite remediation model, remedial coursework was a barrier to student persistence or a student’s ability to show demonstrated progress toward a degree.
- **Proposed Solution:** The remediation metric will be removed from the formula.
- **Rationale:** Students requiring remediation will enroll in credit-bearing courses concurrently with remedial courses. Two-year institutions will be rewarded through persistence and degree completion.

Adjust Award Calculations for Stackable Credentials

- **Issue:** Higher education is increasingly shifting to “stackable” credentials. These are academic credentials that build on each other. For example, along the path to an Associate in Accounting, a student might earn a certificate in Bookkeeping. In many cases students are being awarded multiple credentials of differing levels simultaneously within the same fiscal year and within the same CIP code.

² STEM as defined by Complete College America, the National Science Foundation, or the Department of Homeland Security

- **Proposed Solution:** For each student, the PFF will only pay for the highest credential awarded in each Classification of Instructional Programs (CIP) Code during the fiscal year.³ This adjustment would take effect for the overall, at-risk, and STEM performance funding metrics.
- **Rationale:** Only the highest credential awarded within a fiscal year and within the same CIP code will be counted in the formula.

Future Analysis and Collaboration

- Future collaboration with CHE Commission members, CHE staff, and the institutions to establish and evaluate per-unit value payment amounts. This will take place during the normal budget process (Spring 2018)
- Creation of a task force to study and evaluate a potential quality performance funding metric is underway.

³ CIP Codes (6-digits) help categorize academic programs, similar to how the Dewey Decimal System categorizes books.

Introduction

Higher education has never been more essential. By 2025, 60% of all new jobs will require a quality, postsecondary credential beyond high school, yet only 42% of Hoosiers currently hold such a credential. College completion is a crucial component of economic independence and well-being. On average, Hoosiers with a college degree earn approximately 38% more than those with only a high school diploma.⁴ Wage outcome data for Indiana public college graduates show that the college payoff increases over time and with each credential level earned.⁵ The economic impact of educational attainment is reflected at the statewide level with each one percentage point increase in educational attainment typically translating to a \$1000 increase in state per capita income.⁶

A key strategy to addressing Indiana's credential shortfall and increasing the economic well-being of all Hoosiers is a performance funding approach that distributes dollars to colleges based on improvements in student success and completion. Beginning in 2003 with a research incentive, Indiana's performance-based funding model has continued to evolve to drive dollars to state colleges and universities based on student success outcomes. Through Indiana's performance funding model, dollars have been distributed to colleges that have increased overall credential completion, graduated more students on time, produced more in-demand degrees, conferred more degrees to at-risk students, persisted more students toward degree completion, and improved the success rates of students enrolled in remedial coursework.

During the 2017 legislative session, the Indiana Commission for Higher Education was charged to "review the metrics used in the performance funding formula to ensure those metrics are aligned with the state's higher education goals." As a part of this review, the Commission gathered feedback and insights from leadership of each institution, ICHE Commission members, performance funding experts and other thought leaders. The Commission's recommended modifications reflect the goals outlined in CHE's Reaching Higher, Delivering Value strategic plan. As such, the recommended modifications are aligned with improving student success and college completion, recognizing state attainment/workforce needs, and acknowledging institutional mission differentiation.

⁴ 2014 average annual wages for Indiana residents ages 25 or older: IPUMS-USA, University of Minnesota, www.ipums.org

⁵ 2016 Return on Investment Report, Indiana Commission for Higher Education: http://www.learnmoreindiana.org/wp-content/uploads/2015/12/2016_2015_ROI_Report_01-15-16.pdf.

⁶ Estimated based on a linear regression model predicting 2015 state per capita income (Bureau of Economic Analysis: <https://bea.gov/>) from the percentage of residents ages 25-64 with an associate degree or higher in 2015 (US Census, American Community Survey: <https://www.census.gov/programs-surveys/acs/>).

National Context

As more states have adopted educational attainment goals, many have developed and implemented performance funding models for their state higher education institutions. The Lumina Foundation, an independent, private foundation committed to making opportunities for learning beyond high school available to all, identifies an outcomes-based performance funding model as a crucial step in each state's policy agenda to build a better system for learning beyond high school.⁷

According to Lumina's Strategy Labs, Indiana was one of 25 states to implement an outcomes-based performance funding model in fiscal year 2017. An additional 5 states have developed but not yet implemented a model, and task forces have been developed in two additional states to initiate the development process. Appendix A displays the status of each state according to the latest data collected by Lumina's Strategy Labs.

Indiana is known as a national leader in outcomes-based performance funding through both tying its model to state attainment goals and incorporating key best practice elements into the formula such as degree/credential completion, mission differentiation, and the prioritization of underserved students.⁸ Indiana's performance funding model has been the focus of many national studies on outcomes-based funding because of its leading status. For example, Indiana was selected as one of three states (alongside Ohio and Tennessee) to participate in a Research for Action study on the effectiveness of outcomes-based performance funding.⁹ Additionally, Indiana's model is frequently referenced in case studies to illustrate performance funding in action.¹⁰

Performance Funding in Indiana

Evolutionary, Not Revolutionary

Historical postsecondary funding in Indiana was primarily based on enrollment changes, academic program growth, and equity adjustments. Performance funding began in Indiana in

⁷ Lumina State Policy Agenda 2017-20, p. 4. Lumina Foundation.

<https://www.luminafoundation.org/files/resources/lumina-state-policy-agenda-2017-20-final.pdf>

⁸ Synder, Martha. *Driving Better Outcomes: Typology and Principles to Income Outcomes-Based Funding Models*. HCM Strategists. p. 19 <http://hcmstrategists.com/drivingoutcomes/wp-content/themes/hcm/pdf/Driving%20Outcomes.pdf>

⁹ Callahan, M. Kate. et al. *Implementation and Impact of Outcomes-Based Funding in Indiana*.

https://8rri53pm0cs22jk3vvqna1ub-wpengine.netdna-ssl.com/wp-content/uploads/2017/07/RFA-OBF-in-Indiana-Full-Brief_updated-July-2017.pdf

¹⁰ Cielinski, Anna. Pham, Duy. *Equity Measures in State Outcomes-Based Funding: Incentives for public colleges to support low-income and underprepared students*. Center for Postsecondary and Economic Success (CLASP). p. 5 <https://www.clasp.org/sites/default/files/public/resources-and-publications/publication-1/Equity-Measures-in-State-Outcomes-Based-Funding.pdf>.

2003 with a 1% research incentive for Indiana's public research institutions. Since 2007, the formula has evolved each biennium to shift the focus to metrics which measure outputs directly tied to student success and completion. Appendix B displays the evolution of Indiana's performance funding over time. There has been continuity in Indiana's performance funding metrics for the last three biennia.

Paying for What We Value

The latest iteration of the Indiana's performance funding model, utilized to distribute funding to institutions in the 2017-2019 biennium, provided colleges with multiple opportunities to earn performance funding – all of which were aligned to increasing educational attainment and student success, the core values of Indiana's higher education agenda. As Indiana's priority is increasing the educational attainment of Hoosiers, all metrics focus on increased student success and completion among Indiana resident students. Below are the six metrics included in 2017-19 model with their corresponding importance:

- Overall Degree Completion - 40%
- On-Time Graduation Rate – 30%
- At-Risk Degree Completion – 20%
- High-Impact Degree Completion – 8%
- Remediation Success Rate – 1%
- Student Persistence Incentive – 1%

The overall degree completion, on-time graduation rate, and at-risk degree completion metrics composed 90% of the performance funding formula in 2017-19 to address the Commission's commitment to completion. Each college credential provides a student with the opportunity to compete for jobs, support a family, and help Indiana thrive in a global economy. The overall degree completion metric acknowledges this by rewarding colleges for any degree produced, regardless of the time it takes for a student to complete or the student's profile or background.

The on-time graduation rate and at-risk degree completion metrics further incentivize institutions to produce degrees on time and to traditionally underserved populations. An additional year of college can cost \$50,000 or more in lost wages, tuition, and related costs. The on-time graduation rate metric recognizes an institution's ability to increase students' likelihood of graduating on time, maximizing return on investment for both the student and the state. The at-risk degree completion metric directly rewards institutions for increased degree production among Pell grant recipients, motivating institutions to narrow income-based achievement gaps among Hoosier students.

The high impact degree completion metric is aligned with Indiana's focus on producing degrees aligned with the state's economy. Institutions are rewarded for increased degree production in certain high impact fields. These programs are predominately in STEM areas along with other subjects that provide large benefits to the individual, community, or state.

The remaining two metrics, remediation success rate and student persistence incentive, measure competency and progress toward degree completion. The remediation success rate metric rewards institutions for increased completion of college-level English and mathematics courses (often referred to as gateway courses) among underprepared students. The student persistence incentive metric measures progress toward degree completion in terms of students hitting key credit thresholds throughout their college career.

Mission Differentiation

Embedded in Indiana's performance funding model is an acknowledgement of mission differentiation, which provides institutions with the opportunity to earn funding based on how well they fulfill their mission. Institutions have an opportunity to receive funding for specific metrics that are closely aligned with the roles and missions of their institutions.

In 2017-19, all institutions received funding for the overall degree completion, on-time graduation rate, and at-risk degree completion metrics to address the Commission's big attainment goal and to address closing the achievement gap. The high impact degree completion, remediation success rate, and student persistence incentive metrics were additive metrics that allowed the institutions to gain more performance funding for fulfilling their missions.

Four-year research institutions were subject to the high impact metric to address their mission of conducting research and bringing in significant research funding to the state. Two-year institutions were subject to the remediation success metric based on their mission of being the state's primary provider of remedial coursework. Finally, both two-year and four-year comprehensive institutions were subject to the student persistence incentive metric, acknowledging the key role that these institutions play in providing supports and removing obstacles along the way of a student's progression toward degree completion.

Mission differentiation is not only addressed through the metrics themselves, it is also addressed through how progress is measured and recognized in the formula. Each institution is evaluated based on its own level of improvement rather than its performance relative to other institutions. Each institution serves an unique population of students, and each institution earns funding in the formula based on its own progress in serving that unique population well.

How it Works

State operating support for Indiana's state colleges and universities is composed of two main categories: base funding and performance funding. Base funding accounts for the predominant portion of all funding provided to each college. A smaller portion of base funding is allocated through the performance funding model.

The state creates a pool of funds dedicated to performance by reallocating a portion of institutional base funding and adding a portion of new state funds. The state chooses this

hybrid approach to funding in order to maintain a commitment to performance funding regardless of economic climate. If additional state funding is available, it will be allocated through performance. If additional money is not available, or not available at a level adequate to fund PFF at a desired percentage of the total operating budget, the state maintains its current commitment to performance funding by reallocating a portion of existing state funding. This displays the belief that performance always matters. The distribution of dollars from the performance funding pool to individual institutions depends on the established weighting of each metric and the individual performance of each institution.

Each metric is assigned a weight based on its determined importance in the Commission's strategic plan for higher education. Based on the overall weights, the Commission calculates the dollar amount that applies to one "unit" of output (such as one student graduating) that would result in the established weights. For example, the overall degree completion metric was assigned a weight of 40% given the Commission's focus on core degree completion. This translates to payment amounts of \$1500 for one additional 18-29 certificate, \$2000 for one additional 1 year certificate, \$4000 for one additional associate degree, \$8000 for one additional bachelor's degree, \$4000 for one additional master's degree, and \$2000 for each additional doctoral degree. Appendix C shows the per unit dollar funding amounts for each metric.

These per unit dollar amounts are applied to an institution's metric performance output to determine funding for a particular metric. For example, if an institution produces, on average, 170 additional bachelor's degrees, 30 additional master's degrees, and 3 additional doctoral degrees in 2013-2015 compared to 2010-2012, its funding for the overall degree completion metric would be $\$8000 \times 170 + \$4000 \times 30 + \$2000 \times 3 = \$1,486,000$. Indiana's performance funding model uses a six-year period, composed of two three-year rolling averages to determine the output values for the metrics; this gives institutions the opportunity to see improvement in their metrics while guarding against volatility in the model.

It is important to note that the per unit value payment amounts are almost never fully funded at their established levels. Only a portion of the state's higher education operating budget is dedicated to performance funding. As such, the per unit dollar funding amounts are often reduced down by a fixed percentage to fit within the allotted funding totals for performance funding in a particular fiscal year. For example, the per unit value payment amounts were reduced down 20.4% in fiscal year 2019 to fit within the state's roughly \$80 million dollar dedicated performance funding pool. In other words, in fiscal year 2019, the overall degree completion metric was funded instead at \$1194, \$1591, \$3183, \$6366, \$3183, and \$1591 for all degree levels between 18-29 credit certificate through doctoral degrees, respectively. Each metric's weight is preserved; it is just the payment amount that is reduced to fit within the allotted funding totals.

Significance of Performance Funding in Indiana

Of the more than \$2.6 billion in state funding dedicated to supporting college operations in the 2017-2019 biennium, over \$143 million was allocated through the performance funding formula. Indiana reallocated 4.07 percent of base funding and added 1.25 percent in new dollars to establish performance funding at 5.25 percent of total operating dollars in fiscal year 2018. In fiscal year 2019, Indiana reallocated 4.16 percent of base funding and added 2.5 percent in new dollars to establish performance funding at 6.5 percent of total operating dollars.

Throughout most of the history of Indiana's performance funding model, the percentage of state appropriations linked to performance funding metrics has increased incrementally. It has grown from 1 to 3 percent and then to 5 percent in 2013-15. In 2015-17, 4% of funding was based on performance in FY 2016, and 6.5% of funding was based on performance in FY 2017. The established 6.5% for 2017 matches the established FY 2019 performance funding share for the 2017-2019 biennium.

When looking at the cumulative effect of performance funding since its inception, a relatively larger portion of institutional operating budgets have been funded through performance funding. For example, in fiscal year 2019, it is estimated that over a quarter of institutional operating budgets will have been funded with historical/built-in performance funding dollars.

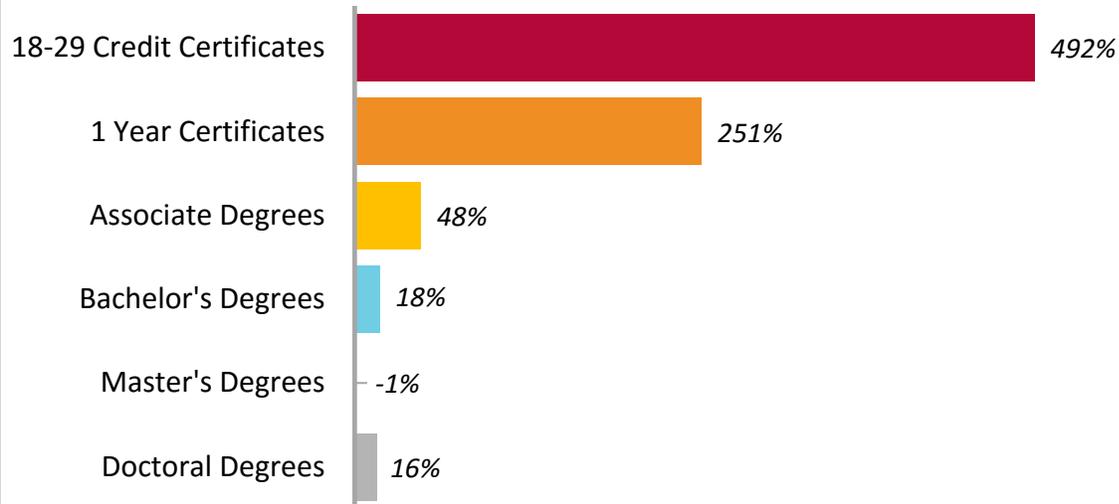
2017-2019 PFF: A Reflection

Metric Trends

In the 2017-2019 biennium, improvements were seen in nearly every single metric at Indiana's institutions. Indiana's institutions are producing more degrees for Indiana's economy, graduating more students on time, and working to close achievement gaps among the low-income student population. By paying for what Indiana values, Indiana has received better results, both in terms of student success and completion.

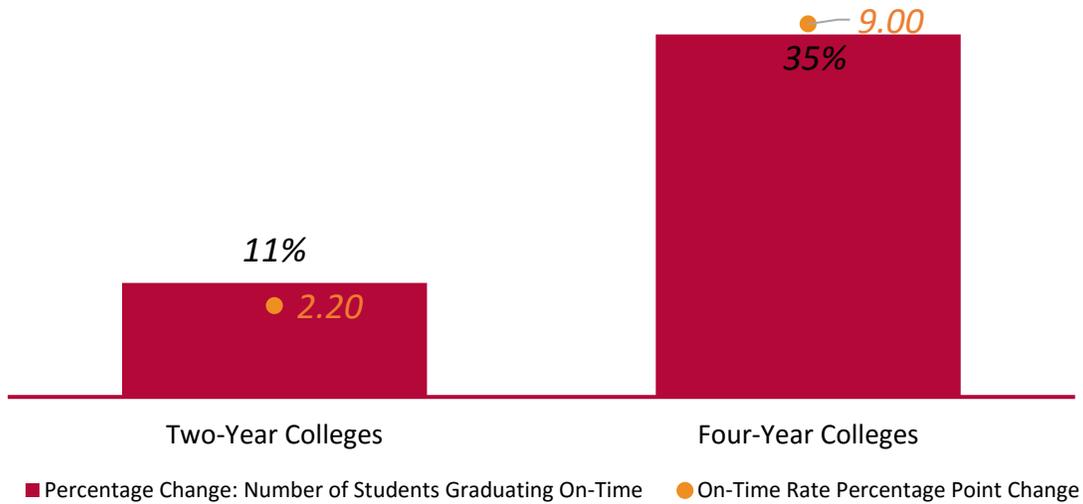
Between 2010 and 2015, the overall number of degrees produced by Indiana public colleges increased by 41%. With the exception of master's degrees, degree production increased across all credential levels. The number of bachelor's degrees earned increased by 18% in five years while the number of associate degrees increased by 48% over the same five-year period. The number of certificates earned among Hoosier students tripled over the time window, providing a larger number of students with shorter-term credentials designed to meet immediate workforce opportunities or pave the way to a higher education credential. See figure 1.

Figure 1: Overall Degree Completion Metric: 5-Year Increase
(2010 - 2015)



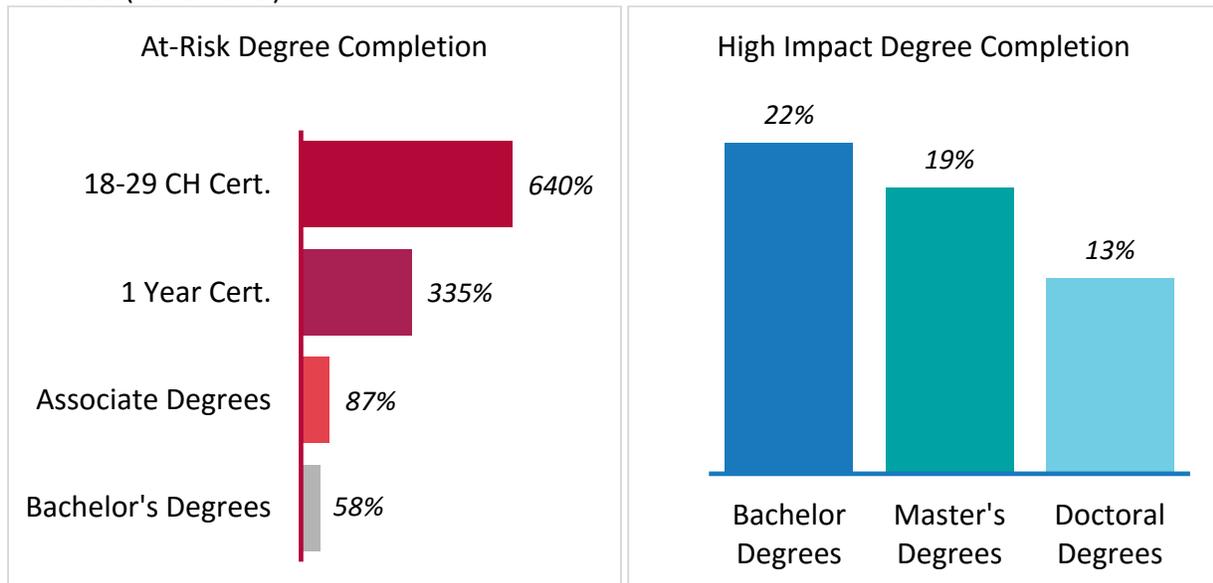
In 2013, the Commission, with the help of the Indiana General Assembly, introduced financial aid reforms and Indiana's 15-to-Finish campaign to keep more students on track to graduate on time. On-time graduation is an area where Indiana saw big successes through the formula in the 2017-19 biennium. All 15 public college campuses saw increases in the proportion of their students graduating on time. At two-year colleges, the on-time graduation rate increased by 2.2 percentage points in five years, with 11% more students graduating on time. The gains were even larger for the four-year institutions; the on-time graduation rate increased by 9 percentage points from 2010 to 2015, with 35% more students completing on time. See Figure 2.

Figure 2: On-Time Graduation Rate Metric: 5-Year Increase (2010-2015)

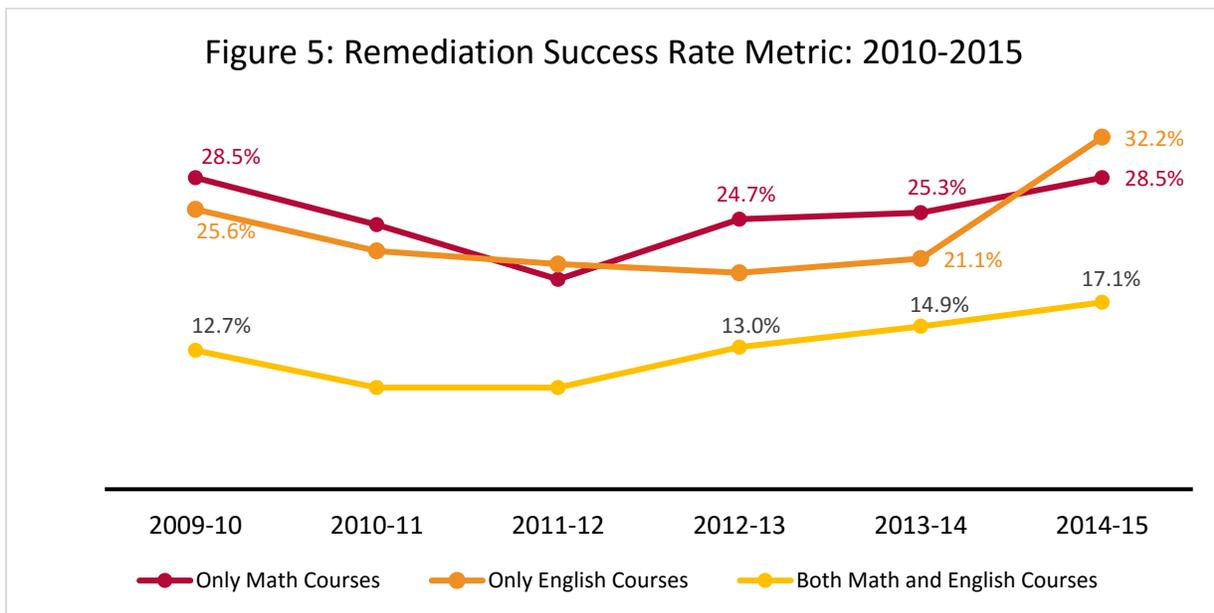


Degree production to Pell grant recipient students through the at-risk degree completion metric doubled between 2010 and 2015, with an overall increase of 111% in the five year time period. The increase was seen across all undergraduate credential levels, with the largest gains being represented at the subbaccalaureate level. During the same five year time period, degree production in high impact areas increased by 22%, helping to produce more STEM degrees to meet the needs of the state’s economy. Increases were seen across all degree levels ranging from 22% for bachelor’s to 13% for doctoral degrees. See figures 3 and 4.

Figures 3 and 4: At-Risk Degree Completion and High Impact Degree Completion: 5 Year Increase (2010-2015)

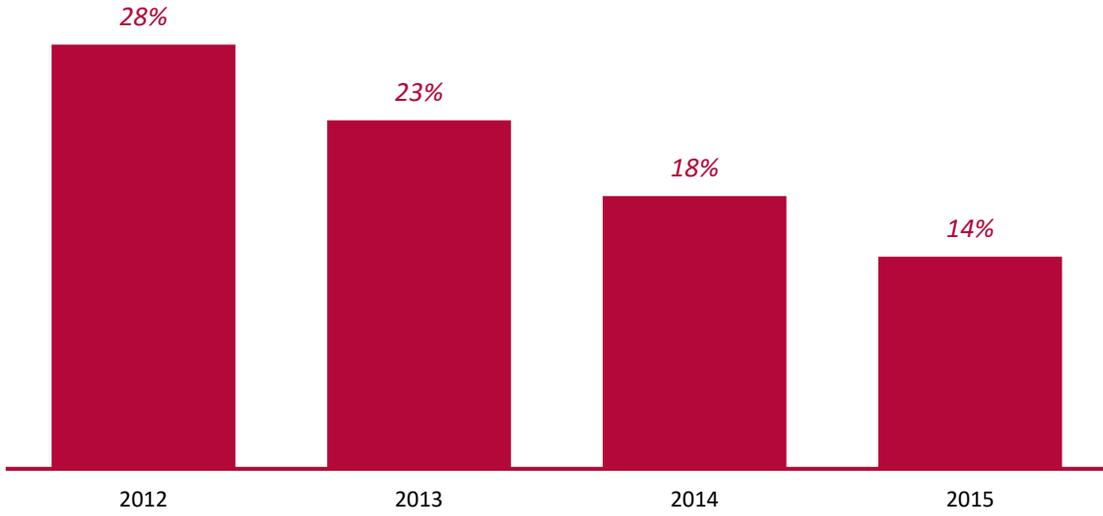


Indiana has seen improvements in the percentage of remedial students completing the gateway English and Mathematics courses that count toward their degrees. See figure 5. The 2017 College Readiness Report showed that the number of students entering college without needing remediation has improved by over 10 percentage points since 2012. See figure 6. While the efforts of K-12 educators contributed to the increased college readiness status of Indiana’s high school graduates, it is important to note that changes in the way Ivy Tech Community College (the state’s largest provider of remedial coursework) identifies students for direct placement in remedial coursework likely has contributed to the trend as well.¹¹



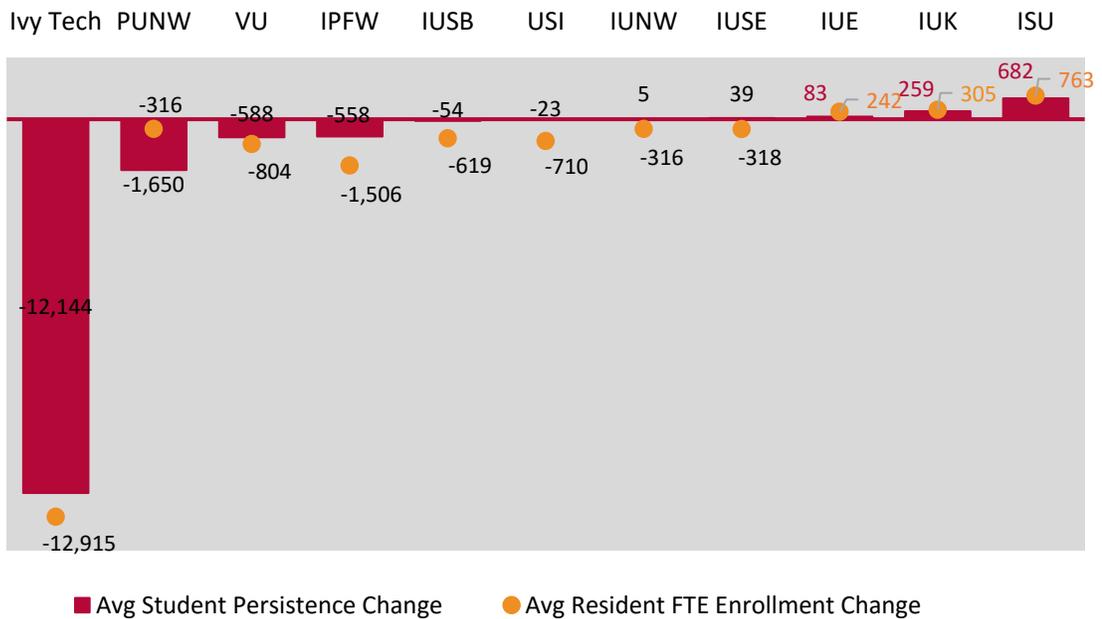
¹¹ From 2013-2015, Ivy Tech transitioned to the Math Pathways program, which included setting different cut scores based on the math actually required for the student’s program of study. Each math pathway (technical math, quantitative reasoning, and STEM/College Algebra) has a different cut score. Before this, all students regardless of their program of study were assessed for College Algebra; now only about 15% of students are assessed for the STEM/College Algebra pathway. In 2013-14 academic year, Ivy Tech began using high school GPA for placement purposes. For the 2015 entering class, the GPA level was decreased based on research done in North Carolina suggesting their prior GPA cut-point was too high. Starting in fall 2014, Ivy Tech also introduced a customized placement test to better identify specific developmental needs, in combination with the use of high school GPA for placement purposes. In summer 2014, Ivy Tech began offering “bootcamps” to help students who were placed into developmental education get up-to-speed prior to the start of the term and start their first term at college-ready levels.

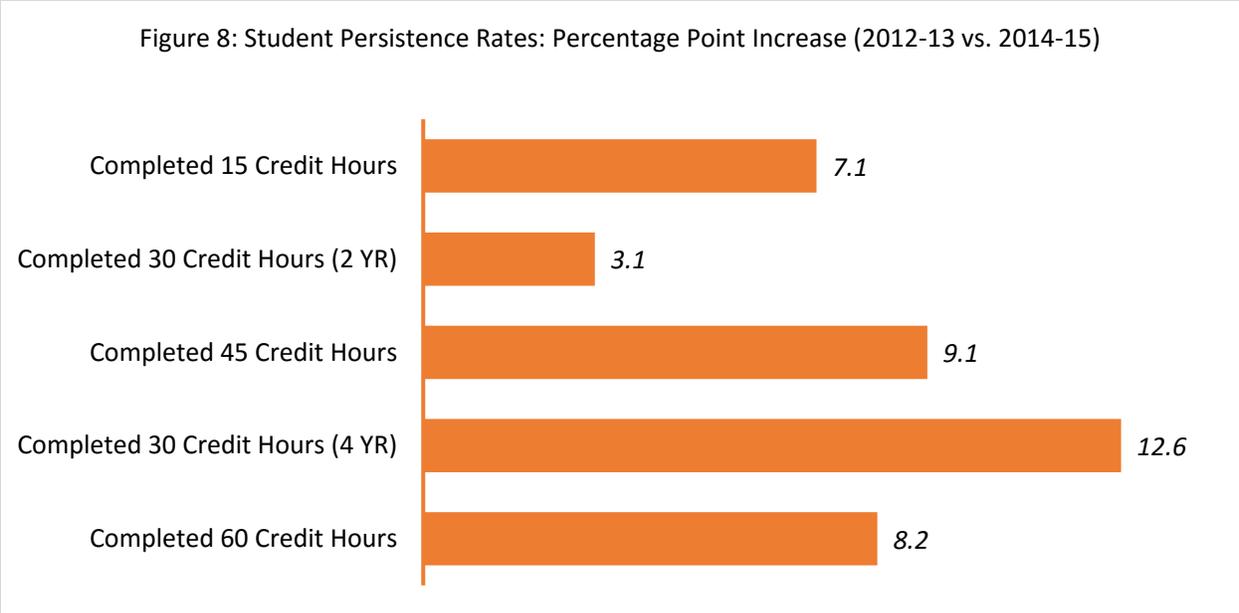
Figure 6: % Needing Remediation: HS Cohorts 2012-2015



Statewide, the number of students meeting credit thresholds through the persistence metric declined over the 2017-19 biennium growth window. Overall, the number of students meeting credits thresholds decreased by 22% from 2010 to 2015. The decline was heavily tied to enrollment declines at Indiana’s public two-year and four-year comprehensive institutions. With the improvement of the economy, fewer students have enrolled in higher education, meaning that fewer students are entering the pipeline to meet the credit benchmarks. Figure 7 shows the correlation between the persistence metric outputs for each institution and each institution’s change in FTE enrollment. The success rates of students hitting the key credit thresholds are improving. See figure 8.

Figure 7: Student Persistence Metric Outputs versus Resident FTE Enrollment: 2010-12 vs. 2013-15





12

CHE Recommended Changes

Looking Forward to 2019-2021

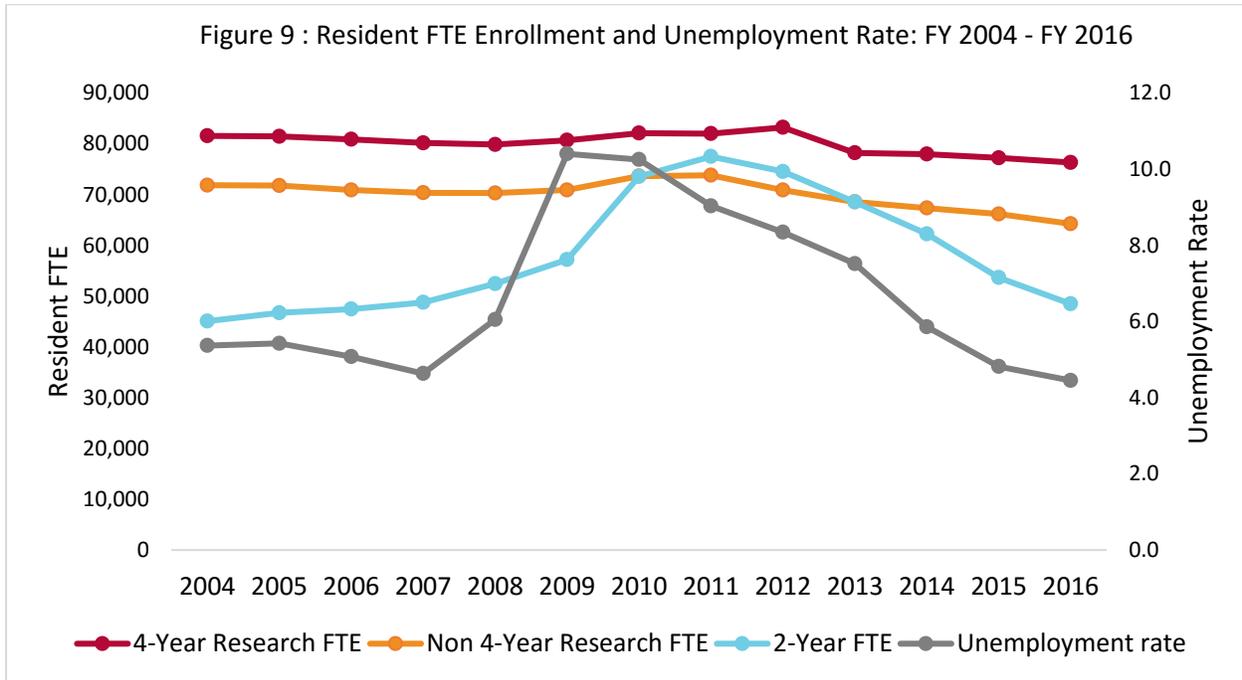
Demographic shifts or trends in enrollment and education practices can sometimes require adjustments to the performance funding model. Indiana’s model has gradually evolved throughout its history to recognize changing times in higher education and the economy. When reflecting on the 2017-2019 metrics, there are both challenges and opportunities that Indiana faces in creating and maintaining a future performance funding model that best aligns with the state’s higher education goals.

Declining Enrollments

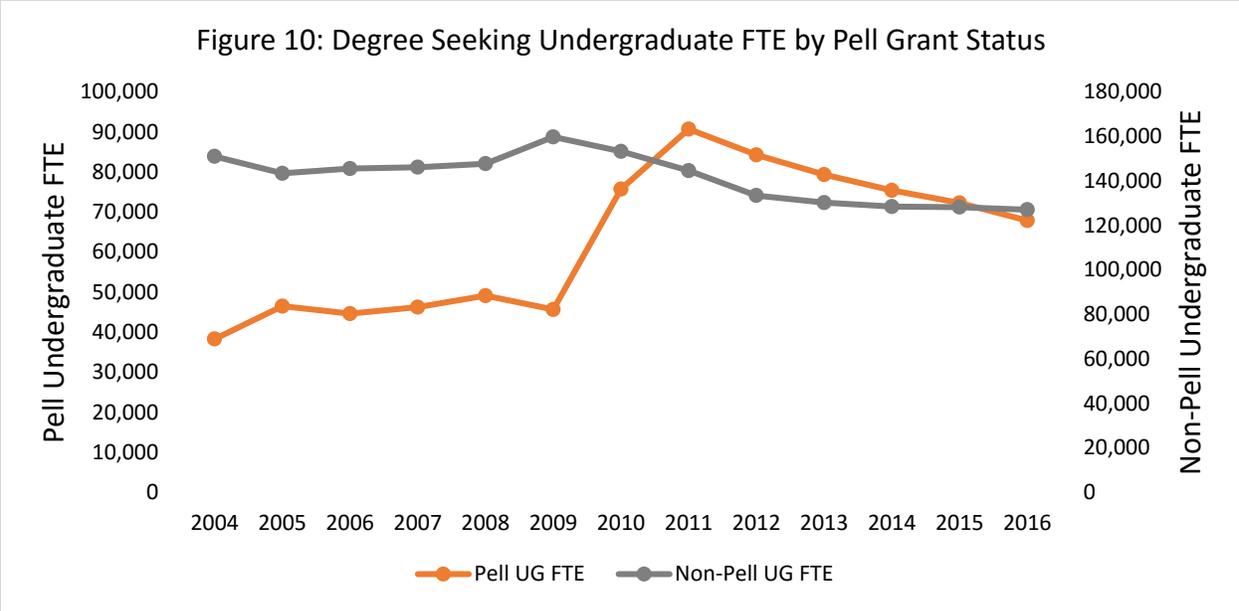
Declines in postsecondary enrollment pose one challenge to Indiana’s performance funding model. With the recovery of the economy, fewer students have enrolled in Indiana’s postsecondary institutions. Figure 9 displays the enrollment trends of each institution type against trends in the unemployment rate. The correlation is particularly strong for Indiana’s public two-year institutions, with the recession curve also present for Indiana’s four-year comprehensive institutions. As these declining enrollments begin to feed into the degree production metrics, it will make it challenging for Indiana’s institutions to show progress in the

¹² With the exception of “Completed 30 Credit Hours (2 YR)” and “Completed 45 Credit Hours” categories, percentage point changes displayed in figure 8 are based on a comparison of combined rates for 2012 and 2013 to the combined rates for 2014 and 2015. Persistence rate changes for “Completed 30 Credit Hours (2 YR)” and “Completed 45 Credit Hours” are based on the change of 2013 and 2015 rates. Persistence rates were calculated based on 200% time for 2-year institutions and 100% time for 4-year institutions.

performance funding model. In fact, the persistence metric, an early indicator of degree production, has already showed the challenges that institutions face in the model with declining enrollments.

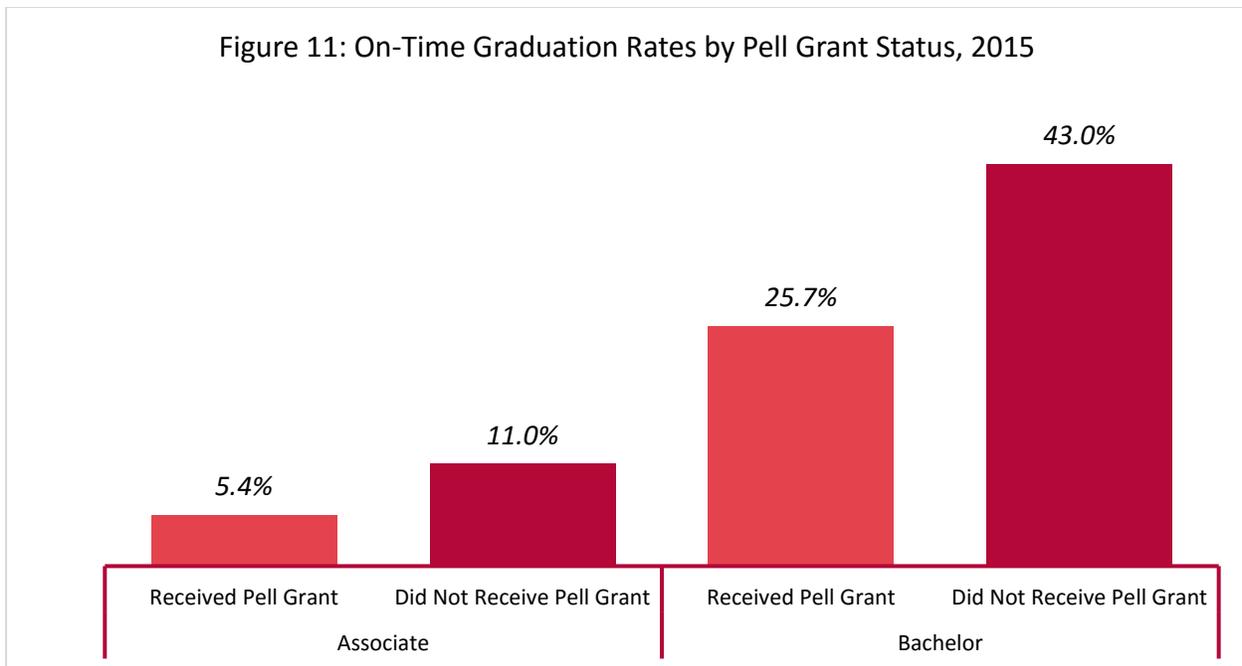


The enrollment challenge will be of unique importance to the at-risk degree production metric which measures progress in terms of increasing the number of degrees produced to Pell grant recipients. As Pell grant eligibility is based on income, enrollments for the Pell grant recipient population are directly tied to the health of the economy. As the economic recovery continues, fewer Hoosiers will be eligible for Pell Grants. Figure 10 shows trends in enrollment at Indiana’s public institutions by Pell Grant recipient status. At the heart of the recession, Pell grant recipient enrollment increased significantly and has been on sharp declines since.



Indiana’s future performance funding model should guard against enrollment fluctuations in order to adequately measure progress toward state higher education goals and to reward institutions for improving the success rates of the student body that they do have. The student persistence incentive and at-risk degree completion metrics are two examples that motivate this fact. Through the state’s 15-To-Finish campaign and the establishment of specific student supports at Indiana institutions, a larger proportion of students are hitting key credit benchmarks that indicate student progress toward on-time completion; institutions should be rewarded for these improvements. The urgency to close the achievement gap has never been more crucial. Data show that Pell Grant recipients are half as likely to graduate on time compared to non-Pell Grant recipients at both the associate and bachelor’s degree levels. See figure 11. The model must reward institutions for improving the success rates of low-income students that they currently have on their campuses and not penalize institutions for declining enrollments that are out of their control.

Figure 11: On-Time Graduation Rates by Pell Grant Status, 2015



Changing Landscape of Remedial Coursework

The changing landscape of remedial coursework in Indiana challenges the original mission of remediation success metric and its intention to drive student success and completion. The Commission partnered closely with its two-year institutions to promote the adoption of a “co-requisite” remediation model. The co-requisite remediation model combines direct placement in college-level courses with extra academic support. The change has resulted in increased student pass rates in first-year math and English courses, as reflected in the general increases in the PFF remediation success metric presented in the previous section.

Prior to the adoption of the co-requisite remediation model, remedial coursework was a barrier for direct enrollment into college-level courses; underprepared students could not enroll in the core coursework pertaining to their degree path without first completing remedial coursework. In other words, remedial coursework was a barrier to student persistence or a student’s ability to show demonstrated progress toward a degree. The remediation success metric rewarded Indiana’s two-year institutions for getting underprepared students to successfully complete the entry step into student persistence, completing a credit-bearing college-level course. With the adoption of the co-requisite remediation model, underprepared students directly enroll into college-level courses allowing the institution to be rewarded for the student persistence metric immediately.

Stackable Credentials

Higher education is increasingly shifting to “stackable” credentials. These are academic credentials that build on top of each other. For example, along the path to an Associate in Accounting, a student might earn a certificate in Bookkeeping. While stackable credentials are

beneficial, they are essentially awards for courses students would have taken anyway in pursuit of a higher degree. Rewarding institutions for stackable credentials can create situations in which the performance funding formula is paying for the same courses twice. The model should drive dollars to institutions for producing unique success outcomes tied to increasing the educational attainment level and economic well-being of Hoosiers.

Indiana's Workforce Alignment Initiatives

A core component of Indiana's *Reaching Higher, Delivering Value* strategic plan is creating a workforce-aligned system of higher education. Indiana must recognize the increasing knowledge, skills, and degree attainment needed for lifetime employment and ensuring Indiana's economic competitiveness. Indiana's focus on producing degrees aligned with the needs of the state's economy is reflected by rewarding STEM degree production through the current high impact degree completion metric for Indiana's public research institutions.

Workforce alignment is reflected in other statewide initiatives such as the Workforce Ready Grant and the Governor's Next Level Jobs and Skilled and Ready Workforce initiatives. The third pillar of Governor Holcomb's 2018 agenda identifies STEM education as a core component of workforce and education alignment: "every Hoosier student should receive an effective baseline education infused with STEM, intellectual curiosity, critical thinking, and other attributes that prepare them for lifelong learning." Each institution has degree programs that make unique contributions to the state and local economies and that meet key labor market outcomes. Recognizing and rewarding each institution's individual contribution to this effort will further drive the alignment of workforce and education in the Hoosier state.

Proposed Changes to ICHE's Performance Funding Model: 2019-2021

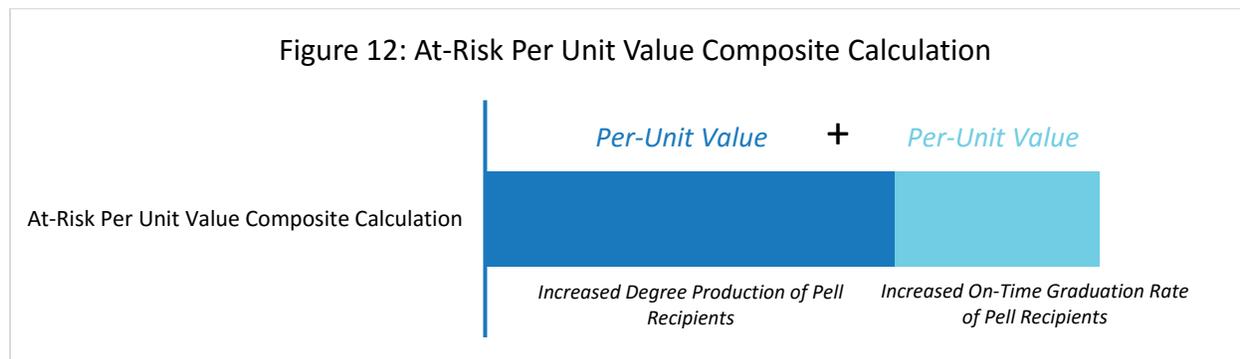
With an eye towards the long term balance and stability of the performance funding model, CHE staff proposes to keep the formula's core metrics consistent and to make a few minor adjustments to how the metrics are calculated.

Convert At-Risk Metric to a Composite Calculation

The metric currently measures the increase in the number of degrees awarded to Pell grant recipients. Going forward, it will also provide a bonus that rewards increases in the percentage of Pell grant recipients who graduate on-time. In Indiana, students who receive a Pell Grant are about half as likely to graduate on-time as their higher-income peers. The Commission's strategic plan calls for closing the achievement gap by 2025. To help ensure that college remains within reach for low-income students, the PFF incentivizes institutions to enroll Pell recipients and help them graduate.

This adjustment to the PFF will balance the need to graduate a larger volume of Pell recipients with the need to close the gap between the graduation rates of low-income and high-income

students. The on-time graduation rate portion of the formula will also carve out a component of the metric that controls for enrollment fluctuations. As long as an institution is improving the success rates of their current Pell recipient population, the institution will receive payment for the metric. Figure 12 illustrates the composite calculation. As a part of the composite calculation, the per unit value calculation for the rate-based portion of the formula will be added onto the existing per unit value calculation in its current form as a bonus.



Convert Persistence Metric to a Rate

Instead of examining the average increase in the number of students who meet the credit thresholds within any timeframe, this metric will be based on increases in the percentage of students who meet the credit thresholds within specific time periods. This change will more accurately measure the efficacy of institutions and will help mitigate large economic and demographic shifts that are outside of institutions’ control.

Threshold completion will be measured within 100% time for four-year comprehensive institutions and 200% time for two-year institutions to encourage more timely completion. The on-time timeframe mirrors the Commission’s 15-To-Finish initiatives and the state’s recent financial aid changes to encourage on-time completion. Indiana’s two-year institutions serve a larger part-time population.¹³ The 200% timeframe for Indiana’s two-year institutions aligns with the Commission’s commitment to recognizing mission differentiation in the formula.

Add 90 credit-hour benchmark for Persistence Metric

Between 60 credits and 120 credits, there are no incentives for four-year institutions. Data show that many students do drop out during the second half of a bachelor’s degree. A 90 credit-hour benchmark creates an incentive at the 75% mark for a bachelor’s, similar to the existing incentive at the 75% mark for an associate. This metric will help encourage and reward institutions for focusing on the full four years of a student’s academic career.

¹³ In fiscal year 2015, 72% of degree-seeking undergraduate students were enrolled full-time at Indiana’s public four-year comprehensive institutions compared to 35% of students at Indiana’s public two-year institutions.

Create a STEM metric for All Institutions

The Performance Funding Formula currently includes High Impact Metric, which looks at the number of students who graduate with degrees in certain fields (mostly STEM along with other subjects that provide large benefits to the individual, community, or state). Currently, only research institutions are subject to this metric. Each institution has STEM degree programs that they would consider high impact and that make unique contributions to the state and local economies.

The High Impact Metric will be broadened to include all institutions and will be called a STEM metric. Research institutions will continue to benefit from the comprehensive list of STEM degrees. For the first time, the list of STEM degrees will be opened to four-year comprehensive institutions. Two-year institutions will be rewarded for credit-bearing certificates that meet the criteria for the Workforce Ready Grant (4 or 5 flames under DWD's Hot Jobs methodology) and associate degrees in STEM fields. Metric outputs will be funded on a differential per-unit value by institution type and degree level. This metric will reflect institutional missions and unique contributions to the Commission's goal of producing credentials that align with the needs of the state's economy and that meet key labor market outcomes.

Eliminate Remediation Metric

Two-year institutions have adopted the "co-requisite" remediation model. The co-requisite remediation model combines direct placement in college-level courses with extra academic support. Prior to the adoption of the co-requisite remediation model, remedial coursework was a barrier to student persistence or a student's ability to show demonstrated progress toward a degree. The remediation success metric rewarded Indiana's two-year institutions for getting underprepared students to successfully complete the entry step into student persistence, completing a credit-bearing college-level course. With the adoption of the co-requisite remediation model, underprepared students directly enroll into college-level courses allowing the institution to be rewarded for the student persistence metric immediately.

The remediation metric will be removed from the formula. Students requiring remediation will enroll in credit-bearing courses concurrently with remedial courses. Two-year institutions will be rewarded through persistence and degree completion.

Adjust Award Calculations for Stackable Credentials

Higher education is increasingly shifting to "stackable" credentials. These are academic credentials that build on top of each other. For example, along the path to an Associate in Accounting, a student might earn a certificate in Bookkeeping. While stackable credentials are

beneficial, they are essentially awards for courses students would have taken anyway in the pursuit of a higher degree.

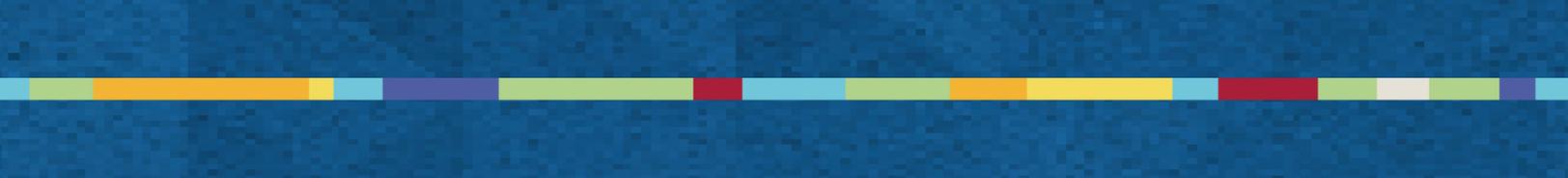
For each student, the Performance Funding Formula will only pay for the distinct highest credential awarded in each Classification of Instructional Programs (CIP) Code during the fiscal year.¹⁴ This adjustment would take effect for the overall, at-risk, and STEM performance funding metrics.

The fiscal year and CIP codes associated with the degree conferred will help determine the criteria for identifying stackable credentials. If a student has earned multiple awards in the same fiscal year, and those awards are in the same subject area, those awards are likely stacked credentials. If the awards are in different subjects, then they are different subjects and are not likely to be stacked. If they are in the same subject but are earned in different fiscal years, then there is not a complete overlap of courses (and the programs might not necessarily be stacked) and institutions will be rewarded for both awards.

Future Analysis and Collaboration

- Future collaboration with CHE Commission members, CHE staff, and the institutions to establish and evaluate per-unit value payment amounts. This will take place during the normal budget process (Spring 2018)
- Creation of a task force to study and evaluate a potential quality performance funding metrics is underway

¹⁴ CIP Codes help categorize academic programs, similar to how the Dewey Decimal System categorizes books.



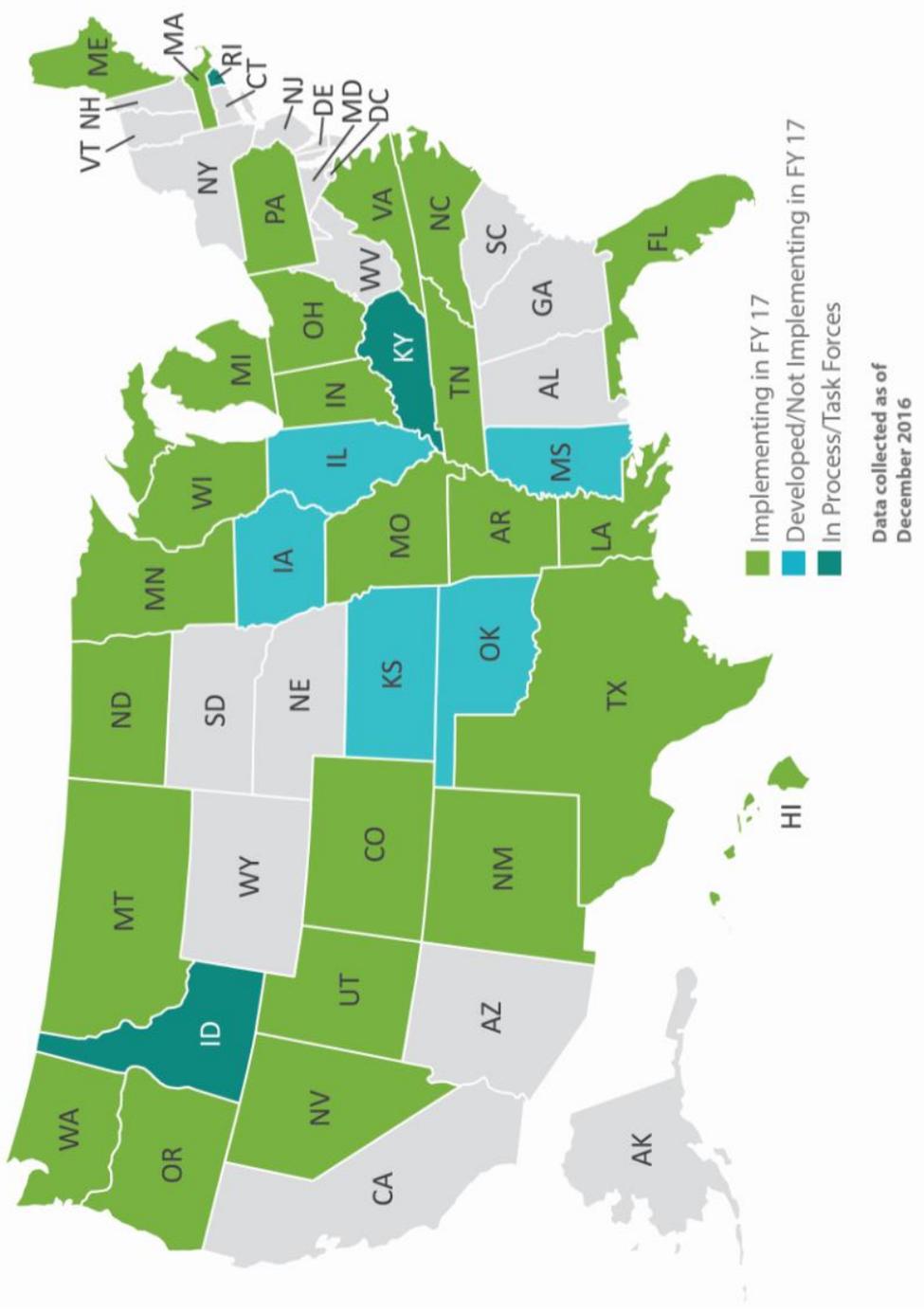
Conclusion

This proposal reflects the goals of CHE's Reaching Higher, Delivering Value strategic plan. The proposal reflects input from the leadership of each institution as well as from CHE commission members, performance funding experts and other personnel. If adopted, the following adjustments would go into effect for the 2019-21 biennium:

- Convert At-Risk Metric to a Composite Calculation
- Convert Persistence Metric to a Rate
- Add 90 Credit-hour Benchmark for Persistence Metric
- Create a STEM Metric for All Institutions
- Eliminate Remediation Metric
- Adjust Award Calculations for Stackable Credentials

As a part of the normal budget process, the Commission looks forward to future collaboration with CHE Commission members, CHE staff, and the institutions to establish and evaluate per-unit value payment amounts. As a part of the future study of Indiana's performance funding model, the Commission will create a task force to study and evaluate a potential quality performance funding metric. The Commission remains committed to delivering a performance funding formula that helps improve student success and college completion, recognizes state attainment/workforce needs, and acknowledges institutional mission differentiation.

States Developing and Implementing Performances 2.0/Outcomes-Based Funding Models



PAYING FOR WHAT WE VALUE

The Evolution of Performance Funding in Indiana

2003-2017



| 2003 | 2005 | 2007 | 2009 | 2011 | 2013 | 2015 | 2017 |
|--|--|--|---|--|--|--|--|
| Enrollment Change (credit hours enrolled) | Enrollment Change (credit hours enrolled) | Enrollment Change (credit hours enrolled) | Enrollment Change (successfully completed credit hours) | Enrollment Change (successfully completed credit hours) | | | |
| Inflation Adjustments | Inflation Adjustments | Inflation Adjustments | | Enrollment Change Dual Credit (successfully completed credit hours) | | | |
| | | | | | Student Persistence Incentive | Student Persistence Incentive | Student Persistence Incentive |
| | | | | | Remediation Success Incentive | Remediation Success Incentive | Remediation Success Incentive |
| Equity Adjustment | Equity Adjustment | Equity Adjustment | | | | | |
| Plant Expansion/Leases | | | | | | | |
| Research Support Incentive | Research Support Incentive | Research Support Incentive | Research Support Incentive | Research Support Incentive | | | |
| | | Change in Number of Degrees | Change in Number of Degrees | Change in Number of Degrees | Change in Number of Degrees/Certificates | Change in Number of Degrees/Certificates | Change in Number of Degrees/Certificates |
| | | | Low-Income Degree Completion | Low-Income Degree Completion | At-Risk Student Degree Completion | At-Risk Student Degree Completion | At-Risk Student Degree Completion |
| | | | | | High-Impact Degree Completion | High-Impact Degree Completion | High-Impact Degree Completion |
| | | Change in On-Time Graduation Rate | Change in On-Time Graduation Rate | Change in On-Time Graduation Rate | Change in On-Time Graduation Rate | Change in On-Time Graduation Rate | Change in On-Time Graduation Rate |
| | | | | | Institution Defined Productivity Metric | Institution Defined Productivity Metric | |
| | | Two-Year Transfer Incentive | Two-Year Transfer Incentive | | | | |
| | | | Workforce Development Incentive (funding non-credit coursework) | | | | |



INDIANA COMMISSION for
HIGHER EDUCATION

2017-19 Per-Unit Values

| Performance Metrics | Per Unit Value |
|---|----------------|
| <u>Overall Degree Completion</u> | |
| 18-29 Cr Cert | \$1,500 |
| 1 Yr Cert | \$2,000 |
| Associate | \$4,000 |
| Bachelor | \$8,000 |
| Master | \$4,000 |
| Doctoral | \$2,000 |
| <u>At-Risk Degree Completion</u> | |
| 18-29 Cr Cert | \$1,125 |
| 1 Yr Cert | \$1,500 |
| Associate | \$3,000 |
| Bachelor | \$6,000 |
| <u>High Impact Degree Completion</u> | |
| Bachelor | \$20,000 |
| Master | \$14,000 |
| Doctoral | \$7,000 |
| <u>Student Persistence</u> | |
| 15 CH | \$300 |
| 30 CH (2 YR) | \$600 |
| 30 CH (4 YR) | \$800 |
| 45 CH | \$1,200 |
| 60 CH | \$1,500 |
| <u>Remediation Success</u> | |
| Math Only | \$1,300 |
| English Only | \$1,300 |
| Math & English | \$2,500 |
| <u>On-Time Graduation Rate</u> | |
| 2 Year | \$11,000 |
| 4 Year | \$23,000 |