INDIANA COMMISSION for HIGHER EDUCATION

PERFORMANCE-BASED FUNDING

for Public Colleges and Universities:

Frequently Asked Questions

BACKGROUND

How does Indiana's performance funding improve Indiana's ability to improve its educational goal of 60 percent of all Hoosiers holding quality postsecondary credentials or degrees?

Indiana's economic health depends on a well-educated workforce. Two-thirds of all new jobs today require a college credential, but just over one-third of Hoosiers hold such a credential. The world has shifted to a knowledge-based economy and Indiana stands to be left behind unless we dramatically increase educational attainment. A key strategy in addressing this shortfall is a performance funding approach which promotes improvement, encourages innovation, drives greater operating efficiency and ensures a better return on investment for students and taxpayers alike. When we pay for what we value, we get better results.

How does Indiana provide funding for the state's colleges and universities?

The State funds colleges and universities in the following categories:

Operating (65%)
Student financial aid (16%)
Capital projects/debt service (14%)
Institutional line items (3%)
Repair and rehabilitation (1%)
Other higher education line items (<1%)

State operating support for Indiana's colleges and universities is composed of two main categories: base funding and performance funding. Base funding, which reflects historical changes in student enrollment and adjusted for inflation, accounts for the predominant portion of all funding provided to each college. A small portion of base funding is allocated through a performance formula that rewards outcome measures like college degree production and on-time completion instead of funding traditional input measures like student enrollment.

How has postsecondary funding evolved over time in Indiana?

Historically, support for Indiana's colleges and universities was determined primarily by the change in the number of students enrolled in a given year and equity adjustments. Performance funding began in Indiana in 2003 with an incentive for Indiana's public research institutions. Since then, the formula has evolved each biennium to shift the focus to metrics which measure outputs directly tied to the student success and completion outcomes our economy needs. The formula now rewards institutions when they do a better job of graduating students and keeping the cost of college affordable.

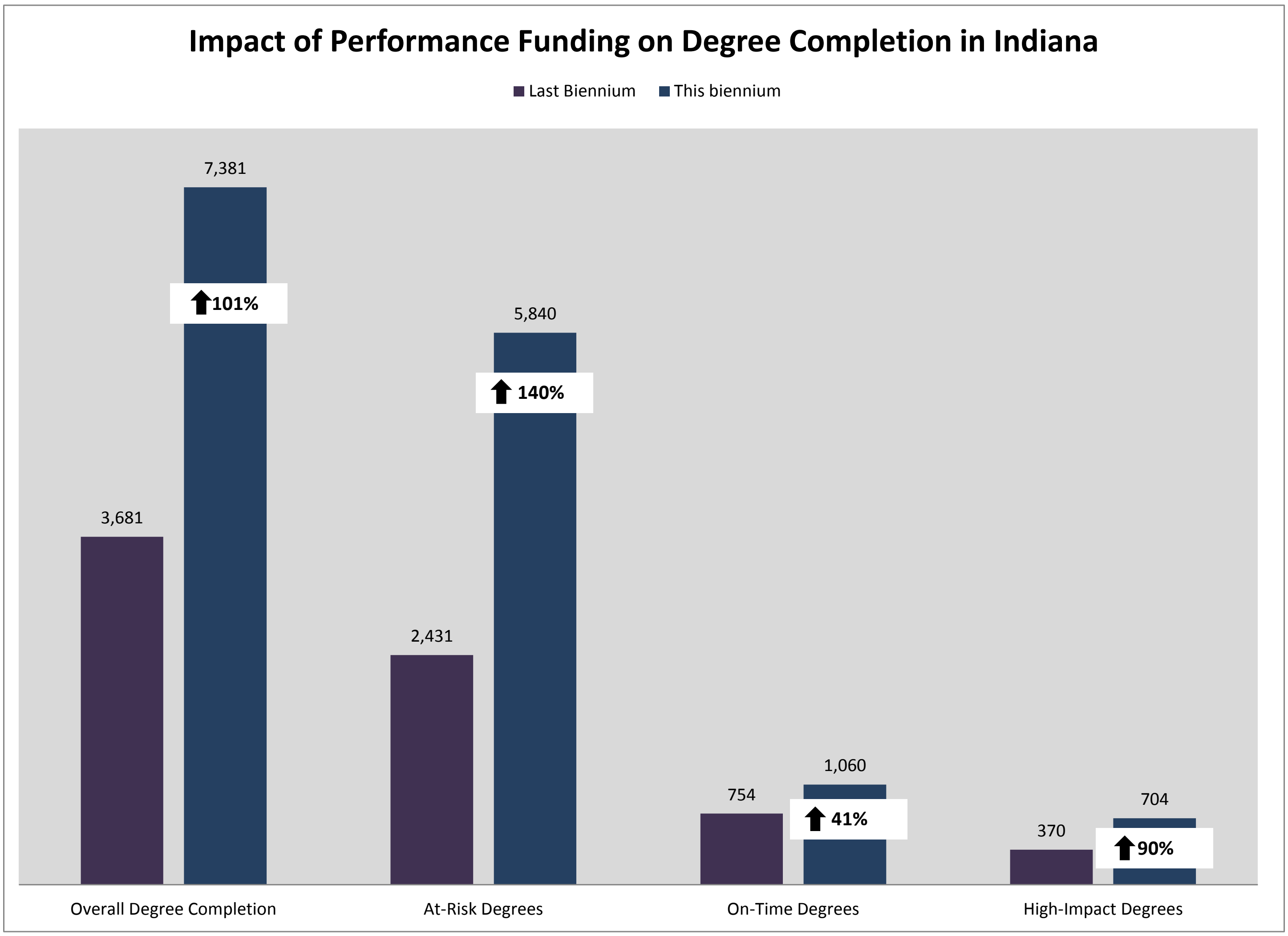
How significant is performance funding in relation to total state funding for higher education?

Of the nearly $1.3 billion in state funding dedicated to supporting college operations in fiscal year 2015, $66.5

million was allocated through the performance funding formula. Compared to the previous biennium, Indiana reallocated 2.2 percent of base funding and added 3.8 percent in new dollars to make performance funding equal to 6 percent of total operating dollars. Its significance can be seen in the intense efforts of Indiana's colleges and universities to improve on these particular metrics, such as creation of graduation guarantees, degree maps and enhanced advising and student support.

Does the formula drive the results the State needs?

This biennium represents the first time that the metrics in the formula have been unchanged. This affords policymakers the opportunity to do an apples-to-apples comparison of success over time. The results show dramatic improvement in nearly all metrics:



HOW IT WORKS

What metrics are included in the performance funding formula?

The current funding formula includes a total of seven metrics in two main categories: completion measures and progress measures:

Completion Measures

1) Overall Degree Completion
2) On-Time Graduation Rate
3) At-Risk Degree Completion
4) High-Impact Degree Completion

Progress Measures

5) Student Persistence
6) Remediation Success
7) Institutionally-Defined Efficiency metric.

How were the funding levels established?

In the 2013-15 biennium, the Commission made a policy choice about the relative importance of each metric based on its strategic plan for Indiana higher education entitled *Reaching Higher, Achieving More*. This was reflected in "weights" for each metric as follows:

Overall completion (30%)
On-time completion (25%)
At-Risk Completion (15%)
High-Impact Completion (10%)
Student Persistence (15%)
Institutional Defined Productivity Metric (5%)
Remediation Success (0%)
There was no improvement to fund in this metric

Based on these overall weights, the Commission was able to calculate the dollar amount that would apply to one "unit" of output (such as one more student graduating) that would result in the weights the Commission selected.

For the 2015-17 biennium, the Commission increased transparency and predictability by keeping the per unit amounts at the same level as the previous biennium and announcing that decision more than a year before HB 1001 will be signed into law.

How does the performance formula account for the different roles and missions of each college?

Not every institution earns money from each metric. The mission differentiation in the formula means that institutions earn the most money when they fulfill their institutional mission well. Additionally, each college is evaluated based on its own level of improvement rather than relative to how other institutions perform. Every college has the opportunity to show improvement on at least five measures, which together form a comprehensive picture of performance for that institution.

Why does the formula focus on the performance of Hoosier students (and exclude non-resident students)?

While the Commission values the participation of non-residents in the State's public higher education system, Indiana's priority is increasing the educational attainment of Hoosiers. As mentioned earlier, approximately one-third of Hoosiers lacks the credentials necessary for today's jobs. The performance formula targets Indiana's resident population as a strategy for addressing this critical challenge. Additionally, institutions are charging significantly higher tuition to out-of-state students and thus do not need to rely on state funding for them, whether that funding is performance-based or not.

Why does the formula reallocate money from institutions' base funding rather than rewarding performance with new money from the state general fund?

The state has made a commitment to fund higher education outputs through performance funding regardless of economic climate. To maintain this commitment to performance funding the state has chosen a hybrid approach to funding. If additional state funding is available, it should be allocated through performance. If additional money is not available, or not available at a level adequate to fund the recommended percent of performance funding, the state maintains its current commitment to performance funding by reallocating a portion of existing state funding.

Why does the performance formula focus on a six-year period of time rather than a more recent period?

The Commission researched many funding models and has adjusted the time period of the data reviewed accordingly. A six-year period—composed of three-year rolling averages—was determined to be a time period that would allow institutions to make changes while guarding against volatility in the model. Shorter time periods introduce the potential for significant fluctuations in returns from the performance model when narrowly focused on a brief time period.

A CLOSER LOOK AT THE METRICS

What is the institutionally-defined productivity metric?

The institutionally defined productivity metric is institutionally designed and chosen as a measure of efficiency and affordability. As an example, the metric selected by Ivy Tech calculates the cost savings to the State and the student when a student attends Ivy Tech for the first two years of college (compared to if the student started at a four-year institution). Other metrics involved the adjustment of faculty/student ratios to align with current student populations.

Why is there such a large premium for on-time completion?

It is not sufficient to just get students to college; students must complete a credential in order to compete for jobs, support a family and to help Indiana thrive in a global economy. Every year students extend the term of their college degree program decreases their chances of graduating. Extended time also leads to unnecessary cost. An additional year in college can cost $50,000 or more in lost wages, tuition and related costs, making the most cost effective degree an on-time degree. This is even more critical for financial aid recipients, whose support is limited to four years (or eight semesters). The formula rewards colleges for any degree produced, regardless of the time it takes for the student to complete. The on-time metric recognizes the value of institutions increasing students' likelihood of success by graduating on-time while reducing the overall cost per degree.

Why is increasing at-risk student degree production important?

Higher education has the potential to change lives and communities. Every additional degree or workforce credential earned produces greater personal wealth and upward mobility and contributes to the state's economic vitality. If a student is in the top-quartile, there is a 77 percent likelihood that student will complete a bachelor's degree by the age of 24. Conversely a student in the lower-quartile has only 9 percent chance of doing so. On average, a college graduate earns $23,000 more per year and more than $1 million over the course of a career compared to someone with only a high school diploma. From both a moral and pragmatic perspective, Indiana must make increasing college attainment among low-income students and families a priority and directly reward institutions that succeed in narrowing income-based achievement gaps.

How can a college with a higher graduation rate receive fewer performance funding dollars than a college with a lower graduation rate?

Ongoing improvement is the top priority for Indiana's higher education system, and the performance formula was designed with that aim in mind. Institutions with lower graduation rates have an even more pressing challenge than others and must have the opportunity and incentive to improve. Institutional performance is measured against oneself. If a college with a higher graduation rate does not show improvement and an institution with the lower graduation rate shows improvement the institution increasing its rate will be rewarded for its progress. The bottom line is that all Indiana colleges have room to succeed in the performance funding model.

How does dual credit affect results?

Students who enter college with dual credit are provided a shorter path to degree completion and may be more likely to graduate on time. These dual credit students, when they graduate, will be reflected in the institution's results for performance funding. However, dual credit is directly subsidized outside the formula because of its potential to help Hoosier students graduate faster and at lower cost. For each credit an institution of higher education awards to a high school student the institution is paid $50. In the Commission's 2016-17 budget recommendation this amounts to over $14 million each fiscal year, or a 77 percent increase over the previous biennium.

How are transfer students handled with regard to persistence and graduation metrics?

An institution receives payments for students as they hit credit hour benchmarks: at a two-year institution, the benchmarks are 15, 30, and 45 credits while at a four-year institution the benchmarks are 30 and 60 credits. For a student who transfers, the formula looks at the institution the student was attending when the benchmark was met and rewards that institution with persistence funding. If a student goes to Ivy Tech for two years and completes 30 credits Ivy Tech will receive two payments (for the 15 and 30 benchmarks). If the student transfers to a four year comprehensive institution and reaches 60 credits the four year receives a payment (for the 60 credit benchmark). Similarly, the formula's graduation metrics apply to the institution the student attended when that outcome was reached – the institution that graduated that student.

LOOKING AHEAD

How can campuses with stable or declining enrollment continue to demonstrate improvement?

During the last recession, Hoosiers facing unemployment flocked to postsecondary institutions to improve their skills and employment prospects. As Indiana recovered from the recession, this trend reversed, particularly for the community colleges. Institutions now face flat or declining enrollment, which creates a challenge since the formula recognizes outputs, not inputs. Institutions face a mathematical certainty: they must improve the *rates* of success to continue to show improvement in the formula. The tools for them to do so include degree maps, proactive advising, predictable scheduling and a number of other strategies that institutions are pursuing with support and partnership from the Commission.

Should the formula contain a metric for accelerated completion?

On-time degrees are more cost effective than extended-time degrees, but accelerated degrees have even lower cost and greater rates of success. Financial aid changes in 2013 added an incentive for students to accelerate by awarding additional financial aid dollars to those who do. The Commission is examining ways to place an incentive in the performance funding formula to place an even higher premium on accelerated degrees than it does on on-time degrees.

Should the formula contain a metric for labor market outcomes?

The ultimate goal for postsecondary institutions should not simply be graduating students. The goal should be graduating students with a degree or credential that will support their short- and long-term career success. The Commission is examining ways in which it might measure and reward labor market outcomes of students through the performance funding formula.

Should the formula contain a metric for quality?

The Commission's strategic plan includes quality as one of its three main pillars. This was done intentionally to ensure that a push to graduate more students and graduate them faster did not erode the quality of the degree they receive. While measuring quality is inherently challenging, the strategic plan calls for the development of a statewide implementation and publication of a quality metric that can be benchmarked within the state and nationally by 2015. The Commission is hard at work on this objective. The question then remains whether the quality metric should also be included in the performance funding formula.