INDIANA COMMISSION for HIGHER EDUCATION

2013-15 Higher Education Budget Recommendation – Committee Report to the Commission

December 13, 2012

The following are recommendations from the Budget and Productivity Committee regarding funding for higher education in the 2013-15 biennial budget. These recommendations reflect the committee's discussions over the last three months and the priorities the Commission should set for additional investment in higher education.

Background:

During the summer of 2012, the Budget and Productivity Committee (BPC) met to discuss the weighting of the Performance Funding Formula (PFF) metrics. The metrics were weighted based on the BPC's recommendation, the priorities of the state and alignment with *Reaching Higher, Achieving More*, the Commission's strategic plan. As a result of the discussions, the BPC presented to the full Commission the proposed weighting of each metric, which was unanimously approved by the Commission in August of 2012. Below is the weighting of each PFF metric:

- **Completion Metrics**
    - Overall Degree Completion – 30%
    - At-Risk Student Degree Completion - 15%
    - High Impact Degree Completion – 10%
- **Persistence Metrics**
    - Student Persistence – 15%
    - Remediation Success – 0%
- **Productivity Metrics**
    - On-Time Graduation Rate – 25%
    - Institution-Defined Productivity Metric – 5%

Depending on the data provided by each institution for each metric, and the weighting assigned to each metric, institutions were able to gain in the PFF with improvement in different metrics. No institution was penalized for negative results in any metric. As part of the 2013-15 institution budget submission, institutions were asked to start their 2014 operating budget at 6% less than 2013 and start their 2015 operating budget at 7% less than 2013. This was intended to be the starting point for dialogue regarding higher education funding and the Commission's recommendation.
As the BPC began to discuss the higher education funding recommendation for 2013-15, there continued to be a level of commitment to increase overall funding for higher education. While the BPC was unsure to what level funding should be increased, the BPC requested that staff provide data analysis and comparisons to other states regarding higher education funding, changes in price indices, personal income changes and

other relevant data. With this data, the BPC could make a more informed decision as to the level of funding higher education should receive as part of the Commission's recommendation.

Staff shared and reviewed with the BPC during the October 2012 meeting, various data points related to higher education funding, funding per full time equivalent (FTE) and other applicable information (**See Attachment A**). The BPC focused on the level of funding per FTE and the proportion of the overall state general fund budget allocated to higher education. Increasing the funding per FTE and bringing the state budget allocation for higher education back to 2010 levels were the top priorities of the BPC as staff continued to develop the 2013-15 budget recommendation.

With further direction from the BPC in October 2012, staff created a draft recommendation for funding of higher education which was shared with the BPC during the November 2012 meeting. This high level review of funding provided the BPC an opportunity to understand the impact of an increase in higher education focusing on increased funding per FTE, address state financial aid awards and increasing the state's budget allocation to higher education. Staff provided a step-by-step review of each component of higher education funding and addressed key factors driving additional funding to each component. Overall the BPC was supportive of the staff recommendation and moving forward with increased funding.

During the December 2012 BPC meeting, a final draft was reviewed with the committee for any thoughts or analysis. Staff noted minor changes to the capital projects to be recommended by the Commission as well as a minor change to CHE line items. Once again, the BPC was supportive of the staff recommendation and agreed to move the overall higher education funding recommendation forward to the full Commission with BPC support.

2013-15 HIGHER EDUCATION FUNDING RECOMMENDATION - CHE

Below are the six major components of the higher education budget. Each component plays a key role in supporting higher education in the state of Indiana. The BPC makes the following recommendations for each component of the higher education funding model and the overall funding of higher education (**Attachment B**):

I. Operating Funding:

Operating funding for higher education is the primary source of state support to the seven public institutions, constituting 71% of the overall higher education funding from the state. The Indiana Performance Funding Formula (PFF) is the principle tool used to allocate operating funding to institutions through improvement in the seven metrics of the PFF.

Based on each institution's performance in the seven metrics and the weighting of each metric, institutions are awarded funds from a PFF allocation pool. During the summer of 2012 the Commission voted to recommend 6% in 2014 and 7% in 2015 of the 2013 operating budget (net of the IU School of Medicine and Dentistry) be allocated to PFF. In addition, the Commission voted on the weighting of each metric in the PFF based on priorities and goals of *Reaching Higher, Achieving More* and the state.

Staff provided BPC with data comparing Indiana's funding of higher education both on a macro and micro level. Indiana continues to rank in the mid 40's with regard to funding per full time equivalent (FTE) compared to other states. In addition, over the last 3 years, state operating funding per resident FTE has dropped 16%. Over the last 5 years, that same funding has dropped 15.7% per resident FTE. While operating funding has remained fairly stable, if not flat, resident enrollment has increased substantially, outpacing the growth in state operating support.

RECOMMENDATION

Performance Formula – Fund at 6% in 2014 and 7% in 2015.

- Recommend that of the 6% in 2014, 2.2% be reallocated from the base and 3.8% from new funding for the PFF ($24.4M in base reallocation and $42.2M in new funding).
- Recommend of the 7% in 2015, 3.2% be reallocated from the base and 3.8% from new funding per the PFF ($35.5M in base reallocation and $42.2M in new funding).
- Total new funding would result in a 3.5% increase in operating funding from 2013 to 2014 and flat from 2014 to 2015.

Funding per FTE – Assumes that resident graduate and undergraduate FTE is flat from 2011 actual as reported by the institutions (net of high school enrollment).

- Overall, institutions assumed a drop in resident FTE starting in 2012 but returning to 2011 levels by 2015.
- With a recommended increase in operating funding of $42M per year compared to 2013, and resident FTE figures flat from 2011, funding per FTE would increase by 3.7% from 2013 to 2015.
- See attached charts

II. Higher Education Debt Service

Debt service, also known as fee replacement, is funds provided by the state to institutions that support state funded academic and administration buildings. This funding accounts for roughly 9% of the total higher education support from the state. These funds are specifically set aside to pay capital facility debt issued by the institutions for specific projects.

In the 2013-15 budget instructions, institutions were requested to prioritize both previously authorized (but not funded) projects against newly requested capital projects. Staff identified projects that were top priority of the institution, focused on repairing and rehabilitating current facilities and new projects that would reduce deferred maintenance on campus. In addition, space needs were considered when reviewing projects in order to insure proper space is being provided for enrollment change at campuses. Overall, those projects that focus on promoting academics, improving current buildings and facilities, are high priority projects and address space shortages were ranked highest by staff.

Current funding for debt service is $152M. It is anticipated in 2014 that roughly $11M of debt service will roll off and an additional $2M will roll off in 2015. Current outstanding debt for state funded projects as of 2013 is $1.2B. The debt ratio (commonly used as a barometer for debt service) in 2013 is 11.1%.

RECOMMENDATION

Institutions requested roughly $1.0B for 48 distinct capital projects for the upcoming biennium.

Based on staff analysis, space needs, debt service figures and impact on debt ratio, it is recommended the Commission support 15 projects totaling $344.2M. The increase in debt service in 2014 is estimated at $12.7M and $29.4M in 2015.

- Debt ratio based on operating funding recommendation and debt service recommendation would be 11.9% by 2015.
- Overall debt service funding would be $154.7M in 2014 and $169.2M in 2015. This represents an increase of 13.2% from 2013 to 2015.
- Recommended Capital Projects:
  - Ball State Central Campus Renovation Phase II A - $12.2M
  - Ball State Geothermal Phase II - $33.1M
  - Indiana State Life Sciences/Chemistry Lab Renovation Phase II - $4.5M
  - Indiana State Normal Hall Renovation - $16.0M
  - Ivy Tech Anderson Constructions - $20.0M
  - Ivy Tech Bloomington Construction - $20.0M
  - Ivy Tech Indianapolis Fall Creek Final Phase - $23.1M
  - Ivy Tech/IU Northwest Facility - $45.0M
  - IU Bloomington Academic Core Renovation - $21.0M
  - IPFW South Campus Renovation - $21.4M
  - IU Regional Campus Renovations - $29.0M
  - IU School of Medicine Expansion - $25.0M
  - PU West Lafayette Active Learning Center - $50.0M
  - USI Classroom Renovation/Expansion - $18.0M
  - VU Aviation Technology Center Rehabilitation - $6.0M
- **See attached list and charts**

III. Repair and Rehabilitation

During the 2009-11 and 2011-13 biennium, the seven institutions did not receive state general fund support for repair and rehabilitation. Due to the lack of funding to maintain and provide upkeep on numerous academic and administrative buildings, many institutions created repair and rehabilitation fees to address major backlog in repair and rehabilitation work. In addition, with little to no new capital investment by the state in new buildings or major renovations of current buildings, a backlog of repair and renovation issues mounted.

Based on information collected by the Commission, as of 2012, all seven institutions reported deferred maintenance for academic and administrative buildings of $1.8B. In addition, institutions reported they expensed on average 0.72% of the total capital plant value on repair and rehabilitation projects (all funds).

The Commission, during the 2011-13 budget development, recommended funding repair and rehabilitation over new capital projects by up to $29M in 2013 in order to address mounting deferred maintenance.

Staff notes that during the final development of the 2011-13 higher education budget, while repair and rehabilitation funding was set aside by the General Assembly, a cut made earlier to the operating funding caused concern by the institutions. As a result, the General Assembly shifted funding away from repair and rehabilitation to operating funding, making the operating funding whole, but not directly funding repair and rehabilitation. In theory, roughly $28M of the operating funding in 2013 could be attributed to repair and rehabilitation.

During the spring of 2012, staff began analyzing the repair and rehabilitation formula used in the 2011-13 biennial budget to identify potential changes or updates that might improve the formula for future budget developments. Staff worked with institution facility staff, outside experts on facility and infrastructure maintenance and researched how repair and rehabilitation support was provided in other public and private settings. The goal of this exercise was to develop an updated and simplified, yet effective, repair and rehabilitation formula the state could utilize during the development of budget recommendations.

The formula's objective is to generate an amount of funding that represents an investment allocation goal for facilities and infrastructure maintenance. Both the state and the institutions should be partners when it comes to investing in state assets on the campuses of the seven public institutions. This partnership should include both state and institution financial support to achieve the investment target set forth in the formula. It should be understood that the figures generated by the formula may not be funded fully based on state fiscal realities and priorities, but should be a target for the state and institutions.

Based on discussions with several local and state governments, the federal government and private sector companies, staff proposed in the repair and rehabilitation formula a 1.0% investment allocation target in public higher education institution facilities and infrastructure. The 1.0% investment allocation target generated roughly $116.0M of repair and rehabilitation needs each year of the biennium. In order to address ongoing maintenance and repairs as a partnership between the state and the institutions, staff proposed the state investment 50% of the $116.0M figure and institutions invest 50% of their resources to address repair and rehabilitation needs. This resulted in the CHE recommending institutions request in total $56.0M per year in repair and rehabilitation funding from the state.

RECOMMENDATION

With the creation of a new repair and rehabilitation funding formula, and support to continue to address aging and deteriorating buildings, it is recommended the Commission once again advocate for funding repair and rehabilitation directly. Along with investment in major capital projects that renovate buildings or build new structures to reduce deferred maintenance, additional investment in direct repair and rehabilitation will amplify the efforts of the state and institutions in addressing aging buildings while potentially limiting increases in student fees related to repair and rehabilitation.

Recommend funding repair and rehabilitation at $28.5M per year. This funding represents 50% of the funding requested by the institution for repair and rehabilitation, and 25% of the 1.0% investment allocation target initially generated by the repair and rehabilitation formula. As noted earlier, roughly $28.0M of the 2013 operating funding could be considered repair and rehabilitation. Therefore, if this amount is incorporated as part of the state's 2013-15 repair and rehabilitation funding recommendation, one could conclude that the state is funding the full $56.0M per year.

IV. Institution Line Items

Along with operating funding provided to the institutions, many institutions have specific line items for specific programs operated or overseen by the institution. As part of the institution request for 2013-15, institutions were able to request funding for these line items based on their needs and program changes. Overall the institution line items are funded at $44.4M per year, or 2.7% of the total higher education budget.

In the 2011-13 budget development by the Commission, it was recommended to reduce each line item by 15% and use the reduced funding to support repair and rehabilitation projects. In the final budget, several of the institution line items were restored to their 2011 levels, however, many maintained the 15% reduction.

Many of the line items in the institutions represent legislative priorities, programs or services operated outside the general budget of the institution, or are specifically required by Indiana law. Currently there are 23 institution line items, mostly housed within IU and PU.

RECOMMENDATION

It is recommended that no more than a 3.5% increase be provided in the first year (2014) to a select group of line items. Based on analysis by staff and understanding the needs of each institution's line items, some line items are held flat while others have up to a 3.5% increase in the first year and then held flat into 2015.

In addition, it is recommended that the state continue to support **dual credit** initiatives provided by the public institutions and delivered at the high school setting. As dual credit provides a lower cost option to high school students to obtain college level credit and potentially prepare students for their college career, the Commission feels the state should invest in dual credit programs to improve completion and on-time graduation rates in college and address the cost of attendance at college. Therefore, funding for dual credit should be included as a line item for each institution. Funding would be $8.3M per year and would only focus on dual credit courses that are high priority or career and technical taught at the high school setting. This would assume a $50 per credit hour funding using 2010-11 credit hour completion. Finally, it is recommended the Commission continue to analyze and understand the full impact of dual credit courses on students in high school and the effect on college persistence and completion (both overall and on-time).

This recommendation would not fund Purdue's Indiana Next Generation Manufacturing Competitiveness Center, Vincennes's expansion of Early College Career and Technical education programs and Purdue's High Performance Government Initiative. The basis for these items not being included is based on staff's concern that many of these topics still require additional dialogue with the institution and the General Assembly as to how they fit within the state's priorities.

With adjustments to specific line items and the dual credit funding, the institution line recommendation for 2014 is $54.7M and $53.8M in 2015. This is a 21.4% increase in funding from 2015 compared to 2013. **(See line item listing)**

V. STATE FINANCIAL AID SUPPORT

The state provides nearly $281M for student financial aid and support, or roughly 16.4% of the total higher education budget. This is the second largest funding piece of the higher education funding matrix. The grants and scholarships in the Division of Student Financial Aid (SFA) programs serve needs-based students with aid to public, private and proprietary institutions throughout Indiana.

In the 2011 and 2012 legislative sessions, many changes were made to the requirements and operation for several SFA grant programs, but primarily in the areas of the Frank O'Bannon award, the 21st Century Scholars and the Children of Veteran Officers (CVO). Many of these changes required students to meet GPA thresholds to be eligible for grant awards or continue receive grant awards, set forth income thresholds for future participants in 21st Century scholars and CVO and other procedural and enrollment requirements.

During 2011 and 2012, SFA adjusted and adapted to the new enrollment and eligibility requirements, but a majority of the changes would not impact funding of SFA until 2014 and beyond. During 2012, SFA contracted with HCM Strategist Inc. to analyze and review the SFA grant programs to identify opportunities to better utilize SFA grant awards, improve and incent completion among grant recipients and create a more streamlined grant awards operation.

In addition to major changes being proposed by SFA to Frank O'Bannon and 21st Century Scholar's awards, other minor changes in small grants is being recommended and included as part of the staff recommendation. Many of the changes included in this analysis were provided to Commission members during the fall retreat.

RECOMMENDATION

Several changes have been proposed to the grant awards under SFA. The following are a list of changes and recommendations that impact the financial support of SFA and grants:

- Recommend the Nursing Scholarship be changed to the Student Teaching Stipend, providing financial aid to teachers in the STEM fields or special education.
- Recommend eliminating the Contract for Instructional Opportunity based on reciprocity agreements with Kentucky.
- Recommend shifting the SFA Administration (formerly SSACI) line item into the CHE Administration line item to account for the merged agencies. 21st Century Administration would remain its own line item due to the specific program it supports.
- Recommend CHE no longer allocate staff costs to grant programs. Shifts staff and personnel costs embedded in grant programs to CHE Administration.
- Recommend increases to the CVO and National Guard awards based on projected enrollment and tuition and fees. This is an entitlement program and must be fully funded.
- All other smaller grant awards should be held flat from 2013, e.g. EARN Indiana (formerly Work Study), Minority Teaching Scholarship, Part-time Grant, etc.
- **21st Century Scholars:** Recommend truth in budgeting for 21st Century Scholars. All scholars should be paid from the 21st Century Scholar's budget, unlike prior years when funds from the Frank O'Bannon award were used to subsidize 21st Century Scholar awards. Finally, the recommendation assumes that a small percentage of recipients of the 21st Century Scholars award would not meet the proposed completion requirements, thus would be ineligible for the award. Based on actual enrollment in the 21st Century Scholars program and assuming some number of students do not meet the proposed completion requirements, funding would be \$109.6M in 2014 and \$120.1M in 2015.
- **Frank O'Bannon Award:** This includes the Higher Education Award and the Freedom of Choice Award. The recommendation would be to hold the capped awards flat from 2013, incorporate many of the HCM Strategist Inc. suggestions to streamline and improve the Frank O'Bannon award program. Also, the recommendation assumes students on the Frank O'Bannon award program would be required to meet certain credit hour completion requirements to maintain award eligibility (assumes new law passage in 2013). Finally, the recommendation assumes that a small percentage of recipients of the Frank O'Bannon award would not meet the proposed completion requirements, thus would be ineligible for the award. Based on the above assumptions, the Frank O'Bannon award would be funded at:
    - \$45.1M in 2014 and \$38.1M in 2015 for the Freedom of Choice grants
    - \$119.3M in 2014 and \$100.7M in 2015 for Higher Education Award grants

- Overall, the SFA budget would be $314.7M in 2014 and $301.2M in 2015. This represents a 7.4% increase from 2013 to 2015, with all of the increase occurring in the 21st Century Scholars program, which is an entitlement. **(See line item listing)**

VI. OTHER HIGHER EDUCATION LINE ITEMS

Representing the smallest portion of the overall higher education budget at 0.7%, line items included in this category are mostly administrative items or specific programs/services not directly tied to one specific institution.

These line items include, but are not limited to: CHE Administration, the Statewide Transfer Website, the Medical Education Board, leases associated with higher education and higher education-related programs where the fiscal appropriation is provided to the State Budget Agency.

RECOMMENDATION

It is recommended that some of the other higher education line items receive up to a 3.5% increase based on staff analysis, program needs and other factors.

For those line items appropriated to the State Budget Agency, it is recommended those be held flat from 2013. In addition, it is recommended that during the 2013-15 budget development process, the General Assembly review these line items and determine if any could be folded into an institution's operating funding, e.g. Workforce Centers, Degree Link, etc.

For leases associated with higher education, figures provided by the Indiana Department of Administration are included in the recommendation based on lease agreement figures.

For overall administration, it is recommended that the Board of Proprietary Education and the Student Financial Aid administration budgets be folded into the CHE administration budget based on the merger in 2012. In addition, it is recommended that staff salary and benefits no longer be allocated to SFA grants, therefore funding should be moved out of SFA grants to CHE administration as a budget neutral move.

In addition, **CHE administration** would be increased by 3.5% to account for committee meeting costs and the loss of grant funds during 2014 and 2015 that offset operational costs. The **Statewide Transfer Website** would increase by 3.5% in 2014 and flat to 2015 to account for an increase in the number of electronic transcripts and the impact of proposed changes to mandatory electronic transcripts for all Indiana high school students. To support outreach and communication with K-12 and college students, CHE recommends adding a new line item for **Learn More Indiana** at $725K a year. The additional funds would come from the IDOE Superintendent appropriation that currently supports the Education Roundtable, making the request budget neutral.

Finally, the Commission recommends the state continue to incentivize and support the public research campuses through direct **funding from the state for research**-related programs or grants. Previously, research incentives were funded as part of the PFF, however since research incentives are no longer part of the PFF, CHE recommends $5M per year be added to the 21st Century Research and Technology Fund specifically earmarked for Indiana's public postsecondary research campuses. CHE believes the public research campuses should apply annually to the Indiana Economic Development Corporation (IEDC) to potentially be awarded funding from the $5M allocation. This recommendation would use current practices to allocate research funding to public research campuses based on specific research programs/projects that would benefit the state and the institution.

Overall, the other higher education line items would be funded at $22.5M in 2014 and $22.6M in 2015, an overall increase of approximately 81% from 2013 to 2015 (primarily due to research funding). **(See line item listing)**

TOTAL BUDGET RECOMMEDATION

Based on the six components of the higher education budget, it is recommended to increase the higher education budget by $127.8M in 2014 and $128.0M in 2015. This constitutes a 7.5% increase from 2013 to 2015. In 2013, the total higher education budget represented 12.1% of the overall state general fund budget. If the CHE recommendation is adopted and the state's general fund budget is held flat from 2013 figures, the higher education portion of the overall state budget could be as high as 13.0%. In 2010, higher education represented 12.9% of the state's overall budget.

In addition, the Commission recommends the public institutions hold tuition and fee increases for the next biennium at or below the growth of the Consumer Price Index (or a comparable index). With the Commission recommending increased levels of funding for higher education, a partnership with the institutions for a commitment to keep tuition and fees growing at a level comparable to the Consumer Price Index is significant.