

2025-2027 Outcomes Based Performance Funding Primer

Budget and Productivity Committee

Seth Hinshaw, Sr. Assoc. Commissioner & CFO

August 26, 2024

HISTORY

PERFORMANCE HISTORY



TWENTY YEARS OF MEASUREMENT

- ▶ Began in early 2000s
 - ▶ No legislative mandate
 - ▶ Enrollment growth focus
 - ▶ Research funding for “stable” campuses
- ▶ Transition to (then) new model began in 2007-09 biennium.
 - ▶ Funded both enrollment and new metrics
 - ▶ Used 5 years of data for new metrics
- ▶ Regular updates and changes (not stagnant)

HISTORY

2003	2005	2007	2009	2011	2013	2015	2017	2019
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	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	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	At-Risk Student Degree Completion
					High-Impact Degree Completion	High-Impact Degree Completion	High-Impact Degree Completion	STEM 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	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)					

LEGACY

LEGACY MODEL



LEGACY METRICS

- ▶ Metrics (completion only)
 - ▶ On-time completion
 - ▶ Overall completion
 - ▶ At-risk (low-income) completion
 - ▶ STEM completion
 - ▶ Persistence
- ▶ Resident students only



LEGACY FORMULA

- ▶ Measure change between two three-year averages
 - ▶ $AVERAGE(FY23, 22, 21) - AVERAGE(FY20,19,18)$
 - ▶ Negatives counted as 0 (i.e., no formula penalty for decline)
 - ▶ However, reallocation created funding penalty
- ▶ Funding lagged data by at least 3-4 years
 - ▶ FY26 and FY27 appropriation would use FY18-23 data.
- ▶ Single funding pool for all institutions
 - ▶ Improvement may not result in new funding

LEGACY FUNDING

- ▶ Began during Great Recession
 - ▶ No new state support in 2009-2011 & 2011-2013 biennia
 - ▶ Reallocated “base” funding
- ▶ Reallocation became the rule, not the exception
 - ▶ FY2010 – 5.1% reallocation
 - ▶ FY2023 – 5.0% reallocation

LEGACY PROS & CONS

- ▶ Pros

- ▶ Funding certainty (both up and down)
- ▶ Data smoothing (3-year average)

- ▶ Cons

- ▶ Zero sum game (FY23 = -2% to +10% funding swing)
- ▶ Data lag
- ▶ Mission differentiation



RECENT

RECENT HISTORY



INDIANA COMMISSION *for*
HIGHER EDUCATION

LEGISLATIVE INTERVENTION

- ▶ 2021 Budget Bill – Senate version includes study of OBPF
- ▶ 2021 interim summer study – recommendations
 - ▶ Codify OBPF
 - ▶ Use more recent data
 - ▶ Mission differentiation
 - ▶ Measure institution against itself

LEGISLATIVE INTERVENTION

- ▶ Senate Enrolled Act 366 - 2022
 - ▶ Codified CHE's responsibility to develop funding formula
 - ▶ Additional legislative review
 - ▶ Formula, methodology, and metrics
 - ▶ Commission approval (vote) by October 1
- ▶ House Enrolled Act 1001 – 2023
 - ▶ Separate Ivy Tech funding formula
 - ▶ Employer needs, positive wage outcomes, and stackable credentials

2022-2023 DEVELOPMENT

- ▶ Senate Enrolled Act 366 – 2022
 - ▶ Codified CHE’s responsibility to develop funding formula
 - ▶ Additional legislative review
 - ▶ Formula, methodology, and metrics
 - ▶ Commission approval (vote) by October 1
- ▶ House Enrolled Act 1001 – 2023
 - ▶ Separate Ivy Tech funding formula
 - ▶ Employer needs, positive wage outcomes, and stackable credentials

2022-2023 DEVELOPMENT

- ▶ Considerable feedback from
 - ▶ Commission members
 - ▶ Legislators
 - ▶ University staff
 - ▶ Business leaders
 - ▶ Other stakeholders and partners

PROSPECTIVE

PROSPECTIVE FORMULA



INDIANA COMMISSION *for*
HIGHER EDUCATION

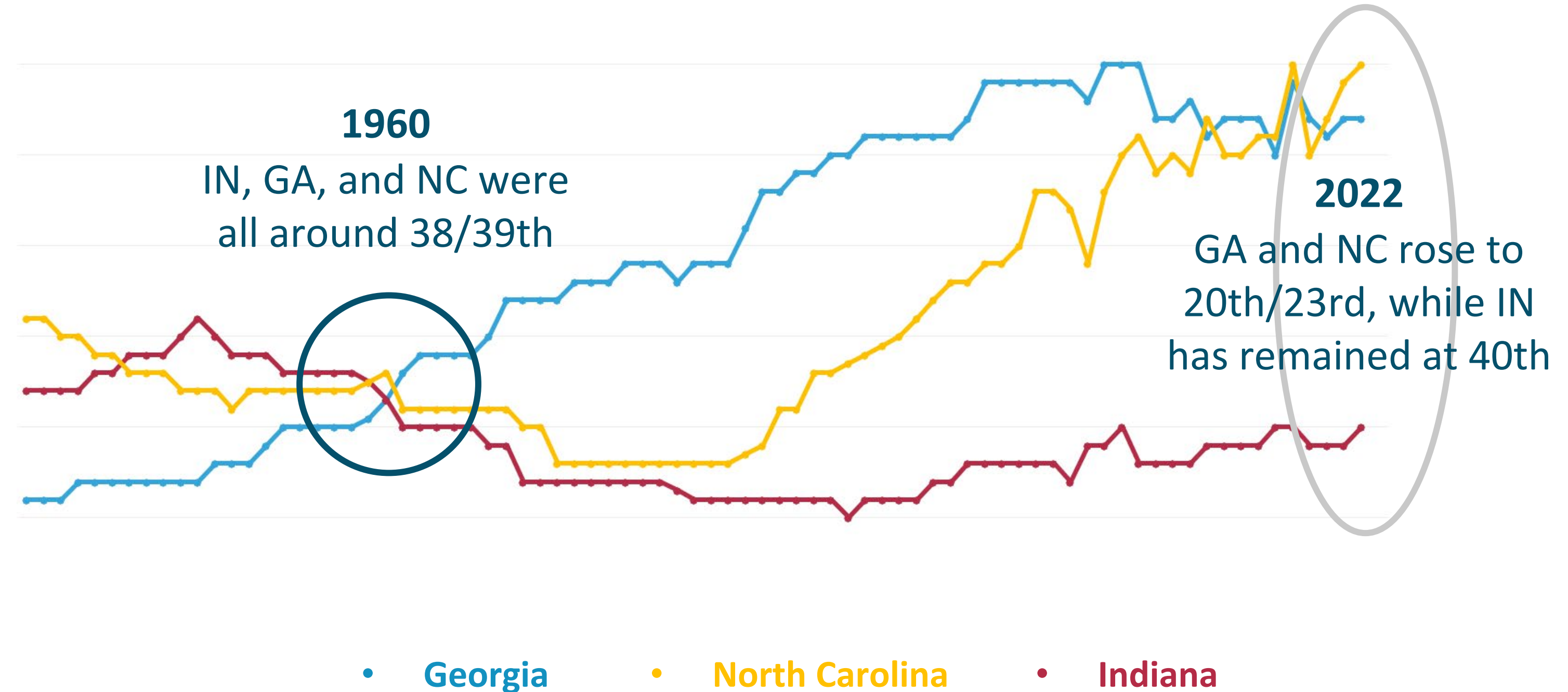
OBPF PURPOSE

- ▶ Three-legged stool (a tool)
 - ▶ Incentive & Accountability (Improvement/stretch)
 - ▶ Investment (attainable) – 43rd in the nation for state support
 - ▶ Policy (board room narrative)
- ▶ HOPE Agenda Aligned
 - ▶ Enrollment (31st for youth & 21st for adults)
 - ▶ Completion (11th in 6-year completion)
 - ▶ Retention (40th in retention)

ATTAINMENT RANKING THROUGH THE YEARS

- ▶ In 1960, Indiana ranked **39th** in bachelor's degree attainment, and our most recent data, 2022, shows Indiana is **40th** in bachelor's degree attainment.
 - ▶ **39th** in attainment of adults with associate degree or higher
 - ▶ **5th** in sub-associate degree attainment
 - ▶ **28th** in total education attainment beyond a high school diploma

Bachelor's Degree or Higher Attainment Ranking



PROSPECTIVE FORMULA

- ▶ Legislative Recommendations:
 - ▶ Unique/separating goals and funding for each institution
 - ▶ Comparing against itself
 - ▶ Reduced data lag
 - ▶ FY26 funding based on FY24 metrics
 - ▶ Mission Differentiation
 - ▶ Separate weighting by institution type

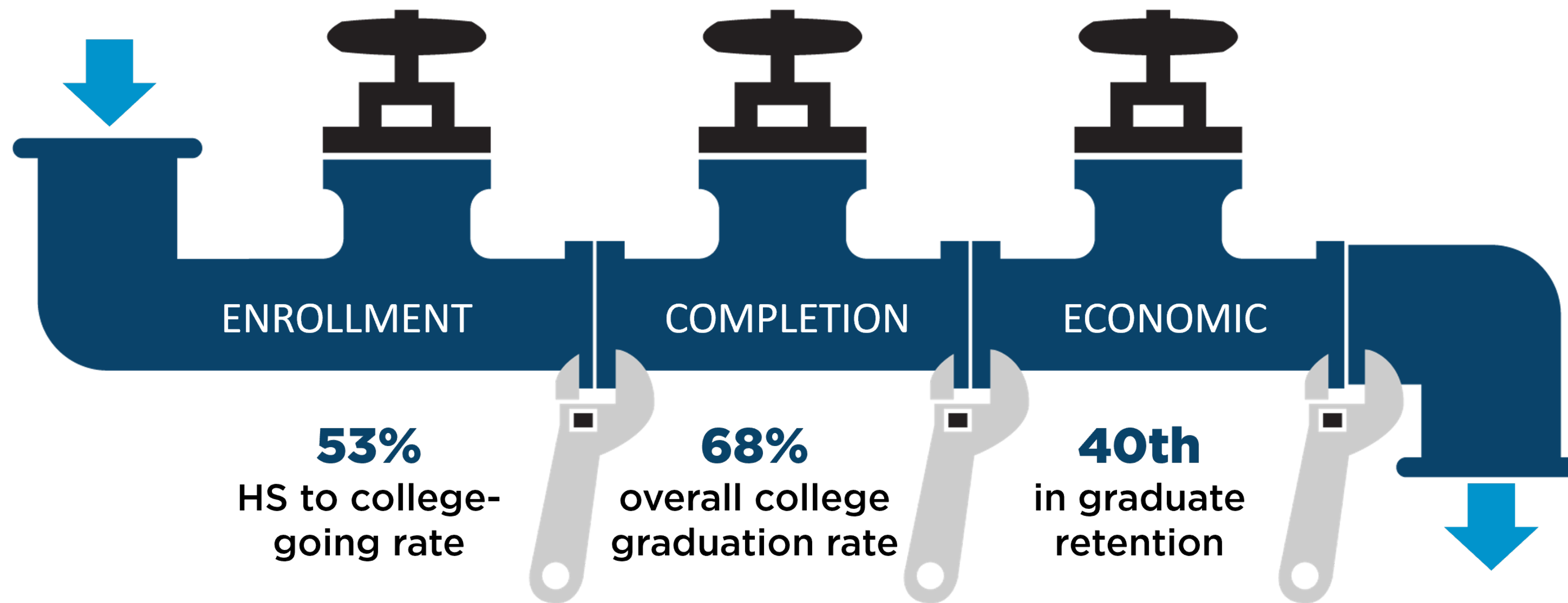
PROSPECTIVE FORMULA

▶ Goals

- ▶ Established using 3-6 years of trend data (CAGR)
- ▶ Each metric has a single goal for the biennium (i.e., two years, one goal)
- ▶ Outcomes unknown to Commission when goals are set and budget recommended
- ▶ Goals can include a year-over-year decline if improved over trend
 - ▶ e.g., Base = 100, Trend = 90, Goal = 95
 - ▶ Challenging, yet attainable

PROSPECTIVE FORMULA

► Metrics



ENROLLMENT	COMPLETION	ECONOMIC
<ul style="list-style-type: none"> • GOING-RATE • ADULT 	<ul style="list-style-type: none"> • ON-TIME (48%) • OVERALL • ADULT • LOW-INCOME 	<ul style="list-style-type: none"> • GRADUATE RETENTION • RESEARCH

OBPF

- ▶ Metrics (pipeline)
 - ▶ Enrollment: low-income youth, adults
 - ▶ Completion: on-time, overall, low-income, adults, STEM
 - ▶ Graduate Retention: share of recent graduates working in IN
 - ▶ Research: expenditures

PROSPECTIVE FORMULA

► Weighting

	IUB & PWL	BSU, ISU, USI, IUPUI	Regionals	VU
Enrollment	15%	15%	15%	15%
High School Going Rate	10%	10%	5%	10%
Adult Enrollment	5%	5%	10%	5%
Completion	65%	70%	70%	70%
On-Time	7%	14%	15%	20%
Overall	15%	14%	20%	7%
At-Risk	20%	14%	15%	15%
STEM	15%	14%	8%	8%
Adult	8%	14%	12%	20%
Graduate Retention	15%	15%	15%	15%
Graduate Retention	15%	15%	15%	15%
Research	5%			
Research	5%			

Ivy Tech Community College

Enrollment	15%
Low-Income Youth Enrollment	5%
Adult Enrollment	10%
Completion	85%
Industry Certifications	19%
Awards of less than 1 academic year	22%
Awards of at least 1 but less than 2 academic years	22%
Associates	22%

PROSPECTIVE FORMULA

- ▶ Funding
 - ▶ **No reallocation**
 - ▶ Second year funding may be no less than first year
 - ▶ Creates operating certainty
 - ▶ Funding earned is added to base in next budget
 - ▶ FY25 Base = 100, funding earned = 2, FY26 & 27 base = 102
 - ▶ Unearned funding annually reverts to the state

PROSPECTIVE PROS & CONS

▶ Pros:

- ▶ Legislative support
- ▶ No state funding reductions, incentivizes collaboration
- ▶ Funds improvement over growth

▶ Cons:

- ▶ New funding uncertainty
- ▶ Reversion of unearned funding
- ▶ Smaller pool of overall incentive funding

ENHANCEMENTS

FORMULA ENHANCEMENTS



INDIANA COMMISSION *for*
HIGHER EDUCATION

BONUS INCENTIVE

- ▶ **Proposal:** Secondary bonus award
 - ▶ Flexibility to award more than 100% of metric funding for dramatically exceeding goal
 - ▶ e.g., VU on-time goal was 21% but achieved 31% - earned 100%, or \$177K, of metric funding
 - ▶ Bonus award limited to available funding appropriated to each institution
- ▶ Incentivizes/Rewards exceptional improvement beyond goal
- ▶ Maximizes state investment through performance

METRICS & WEIGHTING

- ▶ **Proposal:** Remove adult metrics from R1 campuses
 - ▶ Freeing up 13% of overall funding to be redistributed
 - ▶ Shifting to graduate retention, among others



UNEARNED FUNDS

- ▶ **Proposal:** Repurpose unearned funds
 - ▶ Legislative effort
 - ▶ Goal: Keep funds in higher ed without undermining performance funding
 - ▶ Possibilities:
 - ▶ Non-reverting fund
 - ▶ Student success initiatives
 - ▶ Financial aid

The background features a large, faint, circular seal of the State of Indiana. The seal contains the text "SEAL OF THE STATE OF INDIANA" around the top and "1816" at the bottom. In the center of the seal is a landscape with a rising sun, a plow, and a sheaf of wheat, with a figure standing in the foreground.

SETH HINSHAW

Senior Associate Commissioner & CFO

shinshaw@che.in.gov

317-232-1025



INDIANA COMMISSION *for*
HIGHER EDUCATION