INDIANA COMMISSION *for* HIGHER EDUCATION

To:	Governor's Workforce Cabinet
From:	Commissioner Chris Lowery
Date:	June 27, 2024
Subject:	Outcomes-Based Performance Funding

The 2022 Indiana General Assembly (IGA) passed Senate Enrolled Act 366-2022 (SEA 366), tasking the Indiana Commission for Higher Education (Commission) with creating a report detailing the metrics and methodologies used in its Outcomes-Based Performance Funding formula (OBPF) for Indiana's public college and university campuses.

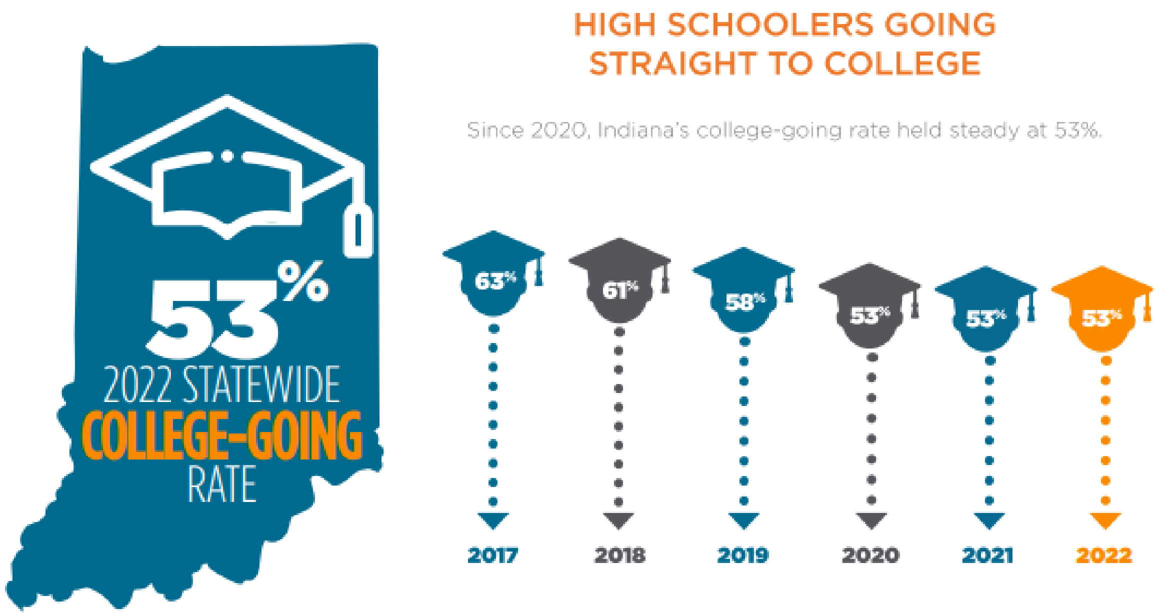
On October 26, 2022, the Commission presented this report to the State Budget Committee, focusing on the methodology and structure of the formula. This report, in response to House Enrolled Act 1001-2021 (HEA 1001), expands upon the SEA 366 report by providing details surrounding the metrics, weighting, and updated methodology of the formula for the 2023-2025 biennium.

During its meeting on May 18, 2023, the Commission voted to approve the metrics, methodology, and weighting of the 2023-2025 OBPF formula. Along with the legacy formula, the new prospective model will be used to support State Educational Institutions (SEIs) during FY2024 and 2025. The following report will detail the challenges facing our state and how the formula outlined within is well suited to incentivize and reward our institutions as they provide for our state's higher education needs.

OVERVIEW

Indiana's economy needs a skilled talent pipeline, which requires students to pursue and complete degrees or credentials that are affordable, high-quality, and relevant to students' future careers and the state's economy. Therefore, the Commission's HOPE (Hoosier Opportunities & Possibilities through Education) Agenda maintained its commitment to reaching 60 percent postsecondary attainment for Hoosiers, which was originally adopted by the state in 2012. But right now, fewer students are choosing a college path (whether that's a workforce or industry credential, or a two- or four-year degree), and the state's college-going rate (including certificates, associate and bachelor's degrees) is dropping. Just over half (53 percent) of Indiana's high school graduating class of 2022 chose to go to college — a drop from 65 percent seven years ago. This drop equates to 4,000 fewer Indiana high school graduates going straight to college. The year-over-year enrollment drop was borne almost entirely by Indiana's public colleges and does appear to be improving as the declines have now flatlined for two successive years.

The college-going rate of Indiana's high school graduates is one of three major elements which must be tackled if Indiana is to make substantive progress toward becoming a top 10 state in postsecondary attainment. The second and third elements are completions at all degree levels and reducing the "brain drain" of recent college graduates through post-graduate retention.



In a recent analysis, Indiana was identified as the 9th best state in the nation for attracting out-of-state students to its institutions but ranked 40th in the nation for retaining students upon graduation. Improving our state's college-going rate will only drive us toward the HOPE goal if we are able to retain talented professionals upon their graduation. Finally, while Indiana has made progress in addressing the overall attainment of our adult population, nearly all progress has occurred with sub-associate level credentials. In fact, Indiana ranks 39th in attainment for associate and higher. Nearly 2 million Hoosier adults are without a meaningful postsecondary credential.

State and national research clearly and consistently shows how valuable education beyond high school is, including through wages, civic participation, and quality of life. Educational attainment is reflected in key economic and workforce data, including unemployment, labor participation, wages, and net worth. These key economic and workforce measures illustrate the value of education beyond high school. Yet Indiana's educational attainment is not close to where it needs to be. Employers are already struggling to find skilled talent. That search will only become more difficult if we do not increase the number of Hoosiers with the skills and training employers need. We must further develop the connection between our labor force and education beyond high school, ensuring employers have access to talented Hoosiers to fill the jobs of today and tomorrow.

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EDUCATION LEVEL	INDIANA UNEMPLOYMENT RATE (2024)	INDIANA LABOR PARTICIPATION RATE (2024)	WAGES – MEDIAN INCOME (U.S.) (2022) (AGES 25+)	WAGES - AVERAGE NET WORTH (U.S.) (2022)
LESS THAN A HIGH SCHOOL DIPLOMA	9.5%	44.1%	$37,240	$175,627
HIGH SCHOOL DIPLOMA	3.2%	56.4%	$46,640	$413,275
SOME COLLEGE OR ASSOCIATE DEGREE	3.2%	65.9%	$53,650	$540,873
BACHELOR'S DEGREE + UP	1.9%	72.9%	$83,570	$1,992,935

ECONOMIC METRICS by EDUCATION LEVEL 06-21-24

EDUCATION LEVEL	INDIANA EDUCATIONAL ATTAINMENT (2022) (AGES 25+)	PERCENT OF WORKING-AGE ADULTS USING SNAP BENEFITS (U.S.) (2021)	INFANT MORTALITY (PER 1,000 BIRTHS) (U.S.) (2021)	LIFE EXPECTANCY (U.S.) (2021)
LESS THAN A HIGH SCHOOL DIPLOMA	10%	21%	11.7	75 years
HIGH SCHOOL DIPLOMA	32%	15%	7.0	
SOME COLLEGE OR ASSOCIATE DEGREE	29%	11%	6.6	
BACHELOR'S DEGREE + UP	30%	2%	4.1	83 years

SOCIAL METRICS by EDUCATION LEVEL 06-21-24

HIGHER EDUCATION FUNDING

Indiana's publicly funded SEIs are primarily funded through two sources: state appropriations and tuition and fees. State appropriations are appropriated biennially and generally fall into one of four categories: operating, debt service, line items, and repair and rehabilitation (R&R).

- **Operating:** appropriation of state funds that support the overall operations of an institution. These state funds help support salary and benefits for faculty, staff and administrative staff, supplies and expenses, utilities, and other costs associated with running a campus. Various line-item appropriations allocated to specific institutions also support university operations. In FY2025, operating and line-item funding comprised 72% of total state support for higher education. NOTE*: The Outcomes-Based Funding Formula impacts colleges' operating appropriations by allocating a portion of state dollars to institutions based on outcome measures that reward improvement in targeted categories.*

- **Capital Funding:** includes both debt service and repair and rehabilitation fund, are appropriations made to public higher education institutions to pay for state-funded buildings, and their maintenance, on various campuses. Institutions that are authorized to issue debt for state-funded buildings have payments that must be paid annually on those state-funded buildings. The debt service appropriation supports debt payments for each institution based on the current outstanding debt for state funded buildings. A formula is used to determine the financial need at each campus related to ongoing repair and rehabilitation. The state shares the cost of R&R with each institution, who is expected to fund their portion through other university funds or fee revenues. In FY2025, capital funding comprised nearly 9% of total state support for higher education.

According to the most recent State Higher Education Finance Report (SHEF), Indiana ranks 43rd among states in its support of postsecondary attainment through SEI operating funding and student financial aid. Low overall state support drives increased education costs to students, leaving Indiana with the 5th highest share of educational costs paid for by students at 63 percent. This is well above the national average, 40 percent, enjoyed by students in many other states. The recent 2023 Budget drove historic new funding to higher education through enhanced financial aid support, increased operating funding, and a modernized outcomes-based performance funding formula. In total, the General Assembly appropriated nearly $136 million in ongoing state support above the previous biennium. Additionally, the state appropriated an historic $630 million in cash funded capital projects. These investments are expected to improve Indiana's overall ranking and reduce the financial burden on students.

RECENT ACTIVITY

Section 193 of the Senate-passed version of House Bill 1001-2021 included language which established a task force assigned with the study of performance-based financial incentives for higher education. This language was ultimately removed; however, the Legislative Council later assigned the topic of "How the higher educational operating funding mechanism should be structured and funded, which goals should be obtained from the funding mechanism, and how the achievement of the goals will be measured with reliable data points" to the Interim Study Committee on Fiscal Policy.

As chair of the interim committee, Senator Travis Holdman established the Higher Educational Operating Funding Working Group (Working Group) and appointed Senator Eric Bassler to chair the Working Group. As part of its review, the Working Group held two public meetings where they received testimony from three national organizations in addition to each SEI. The Working Group made seven policy recommendations, many of which were codified in SEA 366. In addition to these statutory changes, the Working Group asked the Commission to consider the following for the 2023 budget session:

- Mission differentiation, which includes metrics that apply to institutions based solely upon mission differentiation and are categorically differentiated based on research, non-research, and two-year institutions;
- Utilizing data that are more recent to minimize lags in the data compared to the most recent years of performance;
- Allowing each SEI's metric results to be measured against the SEI itself (and not other SEIs).

Following the 2021 regular session of the General Assembly, the Commission procured the services of HCM Strategists to review Indiana's OBPF model. During their review, HCM Strategists compared Indiana against best practices, received institutional feedback, and ultimately provided the following recommendations for consideration:

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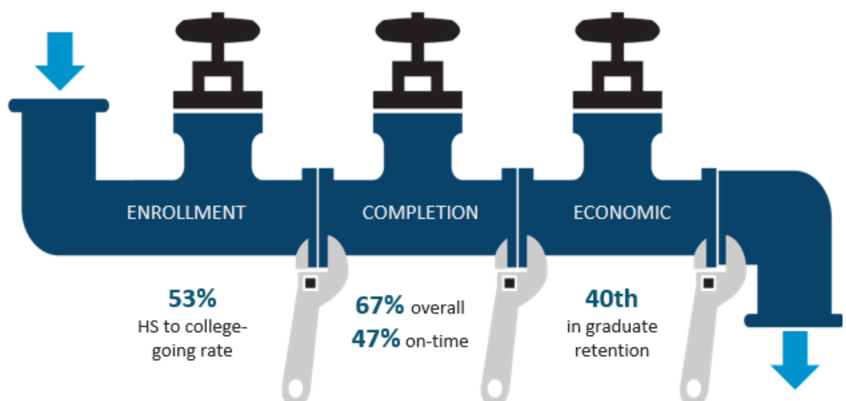
- Enhance mission differentiation,
- Evaluate the range of data used,
- Reflect differences in institutional outcomes across the continuum,
- Understand role of certificates in funding trends, and
- Monitor implications of COVID-19.

The Commission took each of these recommendations into consideration when it began re-evaluating how SEIs might be incentivized through a new OBPF model for the 2023 budget session and beyond.

The New Funding Model

The new funding model focuses on incentivizing specific goal attainment through the biennial allocation of new state resources which the institutions may earn during the biennium. Goals are broken down into three categories: enrollment, completion, and economic. Each institution is eligible to earn 1% new funding in FY2024 and 2% new funding in FY2025, except for entities historically excluded from outcomes-based funding: Indiana University's School of Medicine and Dentistry and Purdue University's College of Veterinary Medicine.



Enrollment:

As previously mentioned, the state has suffered a decline in its college-going rate of 12 percentage points in the last seven years. While certainly exasperated by the pandemic, this trend has been building for nearly a decade. Additionally, while this is a national trend, Indiana's decline is outpacing much of the nation.

Declines in the college-going rate are not evenly impacting Hoosiers of all backgrounds. Low-income Hoosiers have experienced larger declines than their more affluent peers. To counter this, each institution will be incentivized to improve the proportion of their low-income undergraduate students. Incentivizing low-income youth enrollment will act as a leading indicator to another long-time metric: low-income completion, which has suffered considerable declines in recent years. Focusing efforts on low-income enrollment will help to address overall equity in attainment while also having the most dramatic effect on the overall college-going rate.

Metric: Low-Income Youth Enrollment

- Percent of undergraduate, degree-seeking, resident students who are Pell eligible.

Alongside recent declines in the college-going rate of high school seniors, Indiana has also witnessed a decline in the going rate of adults. During the same five-year period where we experienced a 12-percentage point decline in the going rate of youth, Indiana experienced a 13-percentage point decline

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in the going rate for adults. These figures are inseparably linked and highlight the need to focus on both populations to grow the overall attainment of our population.

Metric: Adult Enrollment

- Count of adults (25 and older), undergraduate, degree-seeking, resident students.

Completion:

Degree completions have been a cornerstone to Indiana's funding formula for nearly two decades. Most recently, four forms of completion have maintained the Commission's focus: overall, low-income, STEM, and on-time. These four, with the new addition of adult completion, continue in the prospective formula.

Research shows that students who maintain a trajectory to complete their credential on time are the most likely to complete at all. This is in part due to the significant financial burden that each additional semester of education places on a student. Many forms of financial aid, including the state's generous 21st Century Scholars program and Frank O'Bannon Grant, only provide scholarships for a maximum of four years of education. While Indiana has seen tremendous success in improving on-time completion over the last decade, significant progress must still be made.

Metric: On-Time Completion

- Percent of students who graduate on-time for an associate or bachelor's degree.

The Commission has long held a goal of 60% of Hoosiers holding a postsecondary credential by 2025. We now know that we are unlikely to meet this goal. The most recent reporting from the Lumina Foundation shows that while Indiana has made progress, moving from 48 percent in 2019 to 53 percent in 2022, much of this progress has occurred at the sub-associate level. While our recent success has raised us to just above the national average overall, our associate and higher attainment ranks 39th in the nation. As our economy continues to predominately see growth in careers that require education after high school, overall credential completion must continue to be a focus of the OBPF.

Metric: Overall Completion

- Count of distinct, resident student completions by highest degree level within a six-digit Classification of Instructional Program (CIP) code and fiscal year.

As was previously mentioned with the low-income youth enrollment metric, Indiana has lost significant ground in both the college-going rate of low-income Hoosiers and in the overall completion of our most vulnerable citizens. Following the passage of HEA 1449-2023 (automatic enrollment of 21st Century Scholars) and SEA 167-2023 (high school FAFSA requirement), the General Assembly strengthened its commitment to providing access to affordable educational opportunities after high school. The Commission reinforces this commitment by further incentivizing institutions to support these students from enrollment through completion.

Metric: Low-Income Completion

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- Count of distinct, resident completions receiving Pell at the time of the completion, by highest degree level within a six-digit CIP code and fiscal year.

The Commission has recognized for more than a decade the importance of incentivizing degree completion in those most in-demand skills. Formerly named “high-impact”, STEM completions are aimed at filling the need of our business community while also providing a greater number of Hoosiers with high-demand, high-wage jobs following their credential completion. This metric aligns with several key recommendations from the Governor’s Workforce Cabinet’s 2022 policy recommendations.

Metric: STEM Completion

- Count of distinct, resident completions by highest degree level within a six-digit CIP code and fiscal year for Commission-defined STEM programs.

For many Hoosiers, the increased efforts to attract secondary students to postsecondary training and education has come too late. For these Hoosiers, the challenges to enrollment and completion are numerous. Many adults must balance a full-time job, childcare, family life, and other responsibilities. These additional challenges require additional resources from the institutions to tackle. For this reason, for the first time, institutions will be incentivized to complete a greater number of adult students.

Metric: Adult Completion

- Count of distinct, resident completions by highest degree level within a six-digit CIP code and fiscal year age 25 and older at the time of completion.

Economic:

Indiana’s previous funding formula for higher education largely omitted consideration for what occurred after a student left the institution. While this focused the state’s financial resources into bolstering and improving outcomes for students, it largely provided institutions with little incentive to connect their students with communities around the state, thus increasing the likelihood that students choose to stay in Indiana upon graduation. Graduate retention will reward institutions for improving the proportion of their recent graduates who stay in Indiana following graduation, through both employment and enrollment. Unlike other metrics, this metric incorporates non-resident students. This metric aligns well with the Indiana Economic Development Corporation and Indiana Destination Development Corporation’s focus on talent recruit and retention as well as the significant investment made by the General Assembly into both efforts.

Metric: Graduate Retention

- Percent of both resident and non-resident graduates who work for an Indiana employer following graduation.

Indiana is home to two world-class R1 research institutions. The research that takes place in our state drives advancements in many technologies including agriculture, healthcare, and engineering. Additionally, research funding spurs substantial economic development as well as provides unique educational opportunities for students to earn real-world lab experience that is directly applicable to their future careers. The economic impact of research funding can clearly be seen by the growth in university-aligned research parks and startups. The research metric provides state-level recognition of the value placed on research and its related outcomes.

Metric: Research

- National Science Foundation HERD survey

Metric Weighting:
Any formula containing multiple metrics for each institution necessitates the application of weighting to each metric. This weighting determines what portion of the total available funding to a given institution can be earned by reaching the goal in any given metric. The legacy formula was forced to balance weighting not only between distinct metrics, but also between each SEI. **The new OBPF formula does not require this give and take because institutions are only compared to themselves and not to one another**. For this reason, weights for any given metric vary by institution.

	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%			

The opportunity to create various forms of metric weighting allowed the Commission to lean into each institution's unique attributes, strengths, and growth potential through the lens of mission differentiation. For example, the on-time completion at both Indiana University Bloomington and Purdue West Lafayette, though still improving, call for less growth focus than the other campuses.

Goal Setting:
Fundamental to the new model is the need to establish future goals which incentivize performance and outcomes. **Establishing future goals allows the Commission to honor considerations recommended by both the 2021 Interim Working Group and HCM Strategists by using more recent data, thus reducing the lag that policy change has on outcomes**. Goals are compared to the base year (AY2020-2021), and funds are awarded as progress is made toward those goals. Goals are set using up to six years of historic results to develop a trend. This trend is then adjusted to reflect statewide macro-trends, and then applied to the base year.

Academic Year Data Availability:
The 366 Report provided to the State Budget Committee in October of 2022, outlined the Commission's intent to minimize the data lag between performance and funding to the greatest extent possible. This would mean that AY2021-2022 would act as the base, and AY2022-2023 and AY2023-2024 would be used to measure and fund outcomes in FY2024 and FY2025 respectively. Due to the extensive matching process the Commission uses to process institution submitted data; this proposed timeline would have made SEIs wait to receive earned funds in Q4 of both fiscal years. Therefore, SEIs would not know what of their appropriation was earned until the fiscal year was nearly at an end.

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In addition to the funding uncertainty this approach provided to SEIs, it also limited the ability of the Commission to set goals in advance of the legislative session since the new base would not be available until April of each budget session.

To provide SEIs with greater advance notice and allow for earlier planning by the Commission in future years, the base was moved back one year (e.g., AY2020-2021 is the base for the 2023-2025 biennium). This shift in the base year also necessitates shifting back the academic years used to award funds. For the 2023-2025 biennium, AY2021-2022 would fund FY2024 and AY2022-2023 funds FY2025. However, due to the unique timing of this biennium's transition from the old funding model to this new model, the Commission had access to AY2021-2022 data prior to the setting of FY2024 goals. To address this, the Commission has implemented an FY2024 funding framework based upon the submission of a plan by each institution.

FY 2024 Plan Funding:
As mentioned above, the Commission has opted for a one-time plan funding framework for FY2024 in recognition of the unique nature of this transitional biennium. Each institution has been asked to submit a document to the Commission that outlines what policies and practices are in place or are being developed that will further the state's goals of reversing the declining going rate, grow the number of adults with postsecondary education, retain more of our graduates, and grow research funding. Additionally, the Commission requested each institution to provide recommended metrics for future biennia that will track progress in these priorities in new or underexplored ways. Once the Commission has received and approved an institution's plan, the institution will qualify to begin receiving a monthly distribution of their FY2024 OBPF allocation, per IC 21-18-16-7.

FY 2025 Metric Outcomes Funding:
Funding for FY2025 will be based upon progress made toward goals established by the Commission for each of the metrics listed previously in this document. These goals are developed in collaboration with the institutions; however, the Commission is ultimately responsible for setting the goal. Six years of historical outcomes are used to determine a trend for each metric. These trends are then adjusted using market-based realities and macro-trends. Unlike in previous years, whereby the formula only awarded funding for gross output growth, AY2022-2023 goals will include output declines from the AY2020-2021 base so long as those declines show improvement against historical trends.

New to this OBPF formula is the distribution of funding based upon progress toward a goal. Funding will be awarded in a linear fashion for metrics showing a history of growth if the result is between the AY2020-2021 base and AY2022-2023 goal. Falling below the base results in 0 percent funding earned. Meeting or exceeding the goal results in 100 percent funding earned. For declining metrics, 100 percent funding will be earned if the result exceeds the AY2020-2021 base or falls between the base and the AY2022-2023 goal. However, falling below the goal in a declining metric will result in 0 percent funding earned.

Examples:
Growth Trend Metric
- Base = 100
- Goal = 110
  - Actual = 115. Funding = 100%.

- Actual = 105. Funding = 50%.
- Actual = 99. Funding = 0%.

Declining Trend Metric

- Base = 100
- Goal = 95
    - Actual = 97. Funding = 100%.
    - Actual = 105. Funding = 100%.
    - Actual = 94. Funding = 0%.

Funding Process:

Unlike the legacy model, which awarded funding for metric improvement in data occurring over the previous decade, the new model awards funding over the biennium for improvement taking place during the biennium. Specifically, institutional progress toward goals will be measured annually and funding will be awarded to the extent earned each spring following data collection and cleaning. For example, AY2022-2023 will be submitted by institutions in the fall of 2023, cleaned by the Commission, and ready for awarding by the spring of 2024 for distribution of funds in FY2025.

In years past, SEIs received the same overall appropriation in both years of the biennium. This was largely because performance funding was based upon a snapshot of data that occurred prior to the new biennium. This snapshot created a significant lag between when outcomes occurred and the funding related to those same outcomes. This new OBPF formula provides two snapshots of performance outcomes within a single biennium. For this reason, outcomes are likely to shift between the two years. To address this movement, the Commission determined that no institution's second-year funding would decline below what was earned in the first year. This ensures institutions will be aware of the first year of funding, and a minimum for the second year when they are setting tuition and mandatory fees each May. As was the case in the previous formula, funds earned will be added to each institution's base appropriation in the following biennium.

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Ivy Tech Community College

House Enrolled Act 1001-2023 amended I.C. 21-18-16-2 to require the Commission to develop a separate OBPF formula for Ivy Tech Community College (Ivy Tech) that both aligns with the Commission's strategic plan and focuses on employer needs, positive wage growth, and stackable credentials. As previously discussed, the Commission's HOPE Agenda prioritizes completion, equity, and talent, all of which are pointed toward the goal of being a top 10 state for growing or starting a business based upon the strength of human capital.

Along with their vote for metrics and methodology applied to the six other SEIs, the Commission voted to approve six metrics for Ivy Tech for the 2023-2025 biennium. As leading indicators for completion, enrollment goals allow for improvement upon the state's declining college-going rate while also growing the pipeline inflow to meet employer demand for credentialled professionals.

Metric: Low-Income Youth Enrollment

- Percent of undergraduate, degree-seeking, resident students who are Pell eligible.

Metric: Adult Enrollment

- Count of adults (25 and older), undergraduate, degree seeking, resident students.

Indiana Code 21-41-5-3 outlines the primary purpose of Ivy Tech and establishes an organizational structure necessary to "support workforce training programs, including programs designed for the direct entry of individuals into the workforce; and programs to enhance the skills of workers." With these priorities in mind, the Commission will collect, track, and reward growth in the awarding of non-credit bearing industry certifications. These credentials are short-term and offered in partnership between the college and various employers, labor organizations, and third-party providers. The Commission will partner with Ivy Tech to define eligible certifications and track wage outcomes to ensure students receive the promised benefit of continued education.

Metric: Industry Certification Completion

In addition to industry certifications, the Commission will continue to measure completion outcomes for Ivy Tech at all offered degree levels: sub-18 credit hour certificates, 18-30 credit hour certificates, and associate degrees. As has been the practice for many years, a student may only be counted once in a single fiscal year for any individual CIP code.

Metric: <18 credit hour Certificate Completion

- Count of distinct, resident student completions by highest degree level within a six-digit Classification of Instructional Program (CIP) code and fiscal year.

Metric: 18-30 credit hour Certificate Completion

- Count of distinct, resident student completions by highest degree level within a six-digit Classification of Instructional Program (CIP) code and fiscal year.

Metric: Associate degree Completion

- Count of distinct, resident student completions by highest degree level within a six-digit Classification of Instructional Program (CIP) code and fiscal year.

The Commission is committed to further develop metrics that measure the stackability of credentials, both short-term and associate, as well as the wage outcomes for specific degree programs, including non-credit bearing industry certifications. These results will be used to inform development of the 2025-2027 metrics to ensure only those programs that lead to positive wage outcomes for Hoosiers, or are likely to lead to additional attainment, are incentivized through the OBPF formula.

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