



Performance Formula: History and Mechanics

Presented by Jason D Dudich, Associate
Commissioner and CFO
Indiana Commission for Higher Education

June 13, 2012



Indiana Budget Overview

- Biennial Budget
 - Budget season January through May even years
- Institutions for Higher Education submit budget request to Commission – August odd year
- Commission makes funding recommendation for all of higher education – December odd year
- Governor makes overall budget recommendation – January even year
- General Assembly vote on overall budget
- No line item or amendatory veto authority by Governor



Performance Funding Formula

- Prior to Performance Funding, funding based mostly on enrollment change, new academic programs and equity adjustments.
- Established in 2003 with Research Incentive
 - Grown to 7 metrics used to provide performance funding to institutions
- No statutory requirement for performance funding formula or allocation, all based on Commission policy and strategic plan
- Financial impact on base operating funding varies depending on formula allocation and new funds



Evolution of CHE Performance Formula Metrics

| 2001 | 2003 | 2005 | 2007 | 2009 | 2011 | 2013 |
|---|---|---|---|---|---|---|
| Enrollment Change (credit hours enrolled) | Enrollment Change (successfully completed credit hours) | Enrollment Change (successfully completed credit hours) | |
| | | | | | Enrollment Change Dual Credit (successfully completed credit hours) | |
| Inflation Adjustments | Inflation Adjustments | Inflation Adjustments | Inflation Adjustments | | | Student Persistence Incentive |
| | | | | | | Remediation Success Incentive |
| Equity Adjustment | Equity Adjustment | Equity Adjustment | Equity Adjustment | | | |
| Plant Expansion/leases | Plant Expansion/leases | | | | | |
| Program Adjustment | | | | | | |
| | 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 |
| | | | | Low Income Degree Completion Incentive | Low Income Degree Completion | At-Risk Student 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 |
| | | | | | | Institution Defined Productivity Metric |
| | | | Two Year Transfer Incentive | Two Year Transfer Incentive | | |
| | | | | Workforce Development Incentive (funding non-credit coursework) | | |

Text in red denotes the new performance formula metrics

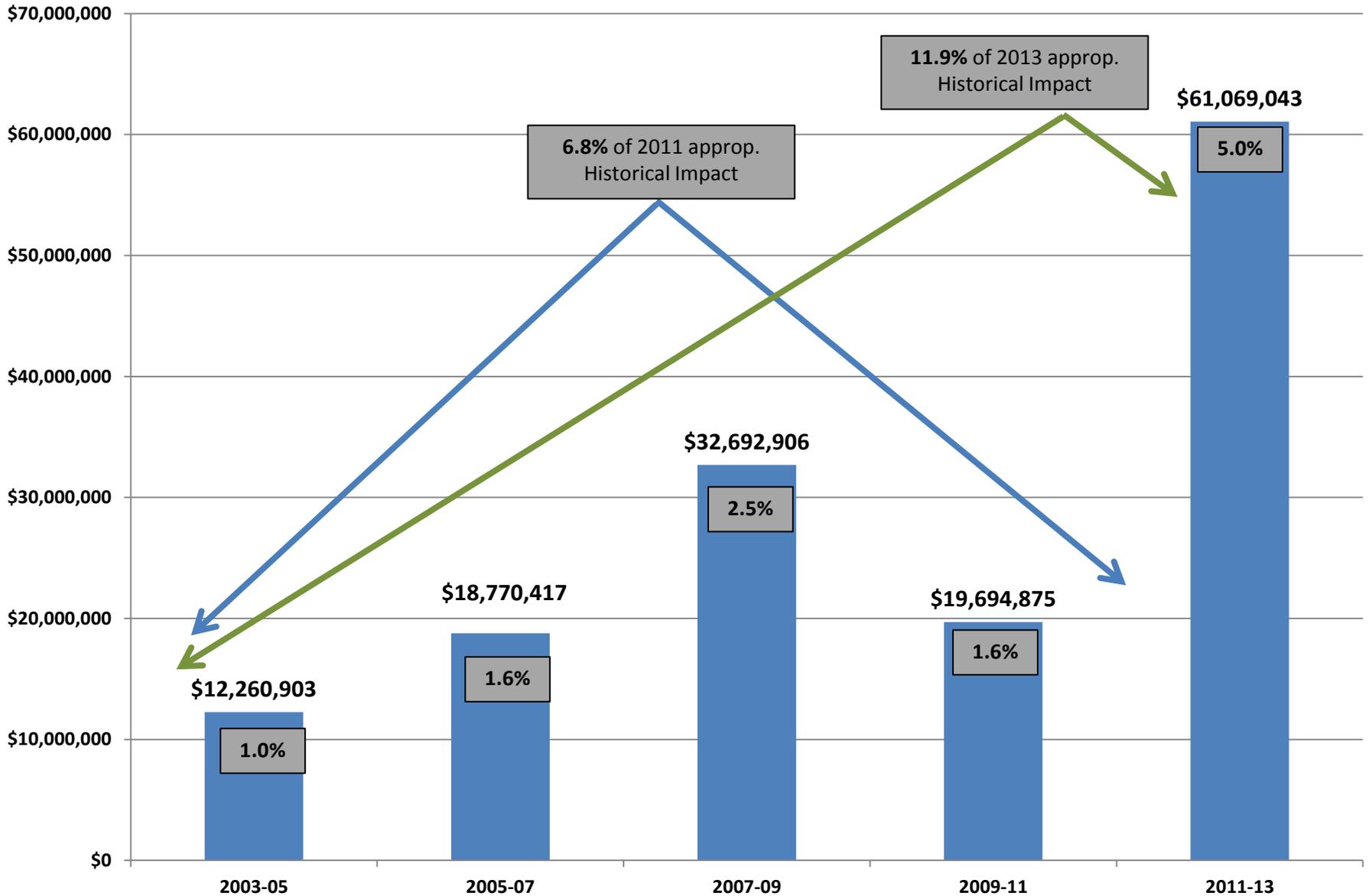
Funding the Performance Formula 2011-13

- Across the Board reduction to operating budgets for each institution of 5% to fund the formula - \$61.4 million
- Performance Funding Formula allocated the \$61.4 million to institutions that performed well in the funding formula
- Allocation of performance funding is based on:
 - Weighting each performance metric based on Commission distribution
 - Funding performance metrics with positive results, did not penalize institutions with negative performance metrics
 - ATB reductions and negative formula results would be a double hit to some institutions

Financial Impact of Performance Funding Formula

- Provides for 5% of the 2011 operating budget to be used towards Performance Formula Funding
 - \$61.4 million for each year of the biennium
 - Total 2013 operating budget \$1,215.0 million
- Highest biennial funding of Performance Funding Formula since inception – 2003
 - 2003-05 Biennium - \$12.3 million – 1.0% of total ops budget
 - 2005-07 Biennium - \$18.8 million – 1.6% of total ops budget
 - 2007-09 Biennium - \$32.7 million – 2.5% of total ops budget
 - 2009-11 Biennium - \$19.7 million – 1.6% of total ops budget
 - **2011-13 Biennium - \$61.4 million – 5.1% of total ops budget**

History of Performance Funding for Higher Education





Current Performance Metrics

- Performance Metrics used in the 2011-13 higher education budget:
 - Overall degree completion
 - Low Income Student degree completion
 - Successful Completion of Credit Hours
 - Successful Completion of Dual Credit Hours
 - Change in On-time Graduation Rate
 - Research Incentive
 - All metrics used data for resident undergraduate students, associate and bachelor degrees only, Dual Credit used resident high school students



Legislative Mandate

- In House Enrolled Act 1001 – 2011, CHE was required to review and revise metrics in the performance formula:
 - *Indiana CHE shall collaborate with the public state educational institutions on a study of the Indiana's performance funding mechanism.*
 - *The study shall involve a review of performance funding models in other states, detailed consideration of the funding measures and methodology, and recommendations for use of different measures and weighting*



Steps to Revise Performance Metrics

- During July and August of 2011 CHE meet with each University President individually to discuss potential changes to the performance metrics and other thoughts regarding higher education funding.
- Starting in July of 2011, CHE began working with HCM (external consultant) to provide comparative analysis of other states employing performance funding for higher education
- From July through September 2011, HCM gathered and compiled performance metric data from multiple states, including Ohio, Tennessee, Pennsylvania and Washington
- HCM provided in the report details regarding each state's performance formula, metrics used by each state and suggestions to Indiana regarding changes to the current performance metrics

Steps to Revise Performance Metrics

- In September of 2011, CHE convened a large meeting with public institution's Chief Financial Officers, CHE staff and Commission members to discuss the performance formula
- Indiana participated in two events where several states noted in the HCM report were invited to collaborative sessions to discussion performance formulas

Final Development of Revised Metrics

- CHE staff and select Commission members began in October of 2011 developing and defining the new performance formula metrics
- Using the feedback from the public institutions, the HCM report, other state's performance formulas and internal discussions; CHE focused on three areas to develop performance metrics for 2013-15:
 - Completion
 - Progression
 - Productivity



Revised Metrics for 2013-15

- **Completion**
 - Overall Degree Completion
 - At-Risk Student Degree Completion
 - High Impact Degree Completion
- **Progression**
 - Student Persistence Incentive
 - Remediation Success Incentive
- **Productivity**
 - On-Time Graduation Rate
 - Institutional Defined Productivity Metric



Completion Metrics

- **Overall Degree Completion** – Resident only students. Includes 1 year certificates, associate degrees, bachelor degrees, masters degrees and doctoral degrees. This metric would be open to all institutions.
- **At Risk Student Degree Completion** – Resident only students. Includes 1 year certificates, associate degrees and bachelor degrees. Applies if the student graduating with the degree is a Pell recipient at the time of graduation. The metric would be open to all institutions.
- **High Impact Degree Completion** – Resident only students. Includes bachelor degrees, masters degrees and doctoral degrees in STEM related fields. STEM is defined as Science, Technology, Engineering and Mathematics based on national standards. Only research campuses would be open to this metric.



Progression Metrics

- **Student Persistence Incentive** - Resident only students. Provides an incentive if a student successfully completes a set number of credit hours at an institution. Would provide an incentive at the 2 year institutions for students meeting 15, 30 and 45 credit hours, and at 4 year non-research campuses 30 and 60 credit hours. The metric would be open to those non-research campuses.
- **Remediation Success Incentive** – Resident only students. Provides an incentive to the 2 year institutions for students who successfully complete a remediation course and then successfully complete a gateway college level course. Would apply only to those courses in math and english.



Productivity Metrics

- **On-Time Graduation Rate** – Resident only students, first time, full time. Provides an incentive for improvement in the on-time graduation rate at 4 and 2 year institutions. On-time graduation rate is considered 4 years for 4 year institutions and 2 years for 2 year institutions.
- **Institutional Defined Productivity Metric** – This metric would be selected by each institution and submitted to the Commission for approval. The metric would need to align with the strategic plan of the institution and focus on reducing the cost of attendance to the student. The metric will differ by each institution but is geared to rewarding an institution for improving productivity in some manner.



Participation in Revised Metrics

| | Research Institutions | 4 Year Non-Research Institutions | 2 Year Institutions |
|---|-----------------------|----------------------------------|---------------------|
| Overall Degree Completion | YES | YES | YES |
| At-Risk Student Degree Completion | YES | YES | YES |
| High Impact Degree Completion | YES | NO | NO |
| Student Persistence Incentive | NO | YES | YES |
| Remediation Success Incentive | NO | NO | YES |
| On-Time Graduation Rate | YES | YES | YES |
| Institutional Defined Productivity Metric | YES | YES | YES |

- Research Institutions: IUB, IUPUI, PUWL, BSU
- 4 Year Non-Research Institutions: USI, ISU, IU Regional and PU Regional
- 2 year Institutions: Vincennes and Ivy Tech



Mechanics of the Formula

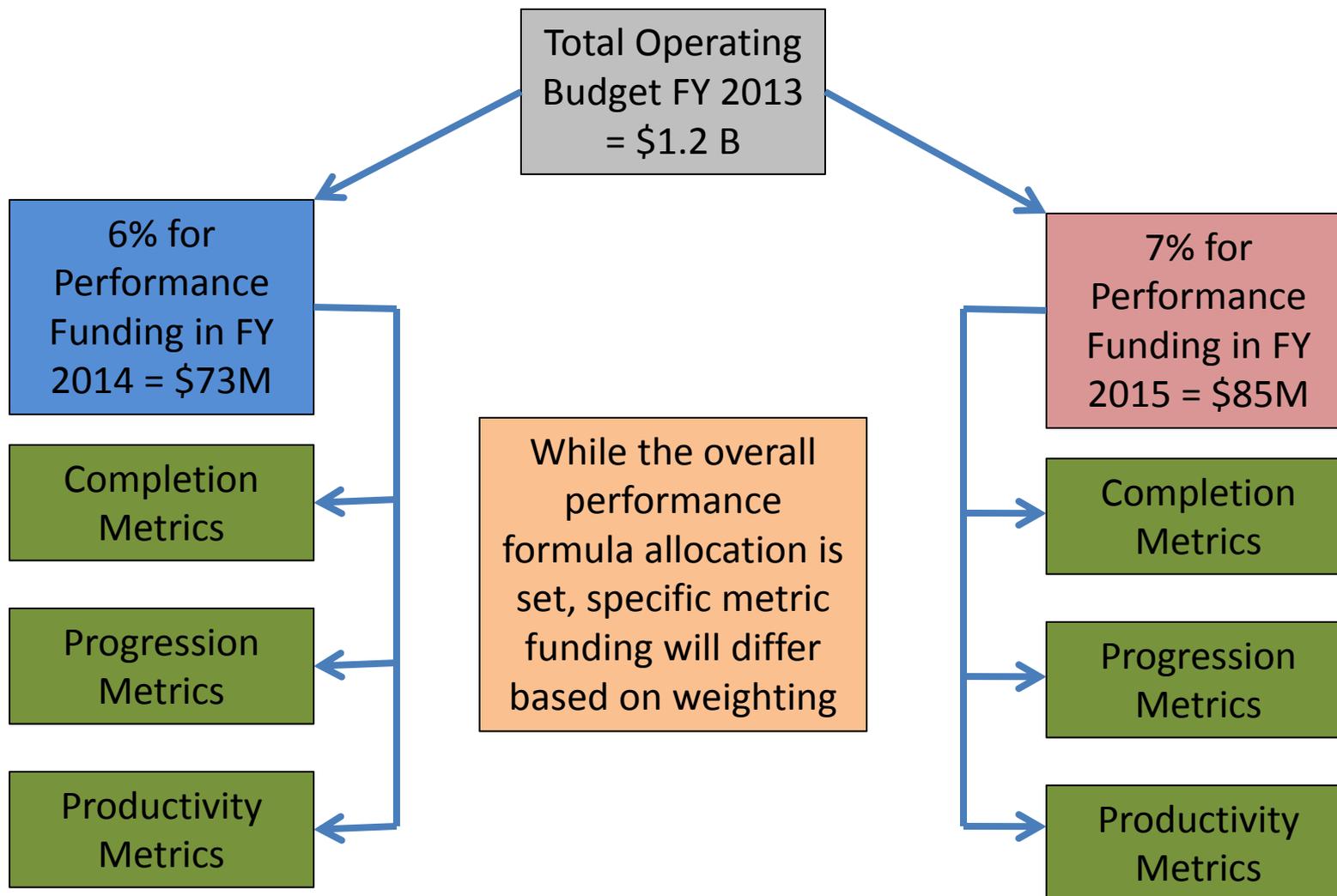
- Funding of the Performance Formula allocation:
 - 6% in 2014 and 7% in 2015 minimum of 2012 base operating appropriation
- Weighting each metric based on Commission priority and goals (aligned with strategic plan)
- Run models to determine outcome of weighted metrics and impact on each institution/campus



Allocation of Formula

- Commission's policy is to continue to move performance funding allocation higher each year
- Determine how allocation will be funded:
 - Reallocation of base budget (fund all 6% and 7%)
 - New funds (limited based on resources)
 - Hybrid
 - Normally determined as part of the Commission's overall higher education budget recommendation
- Base should be impacted to provide funds to those institutions that perform well (reallocation)
- Any new operational funds should go towards funding performance formula, not the base

Allocation of Formula



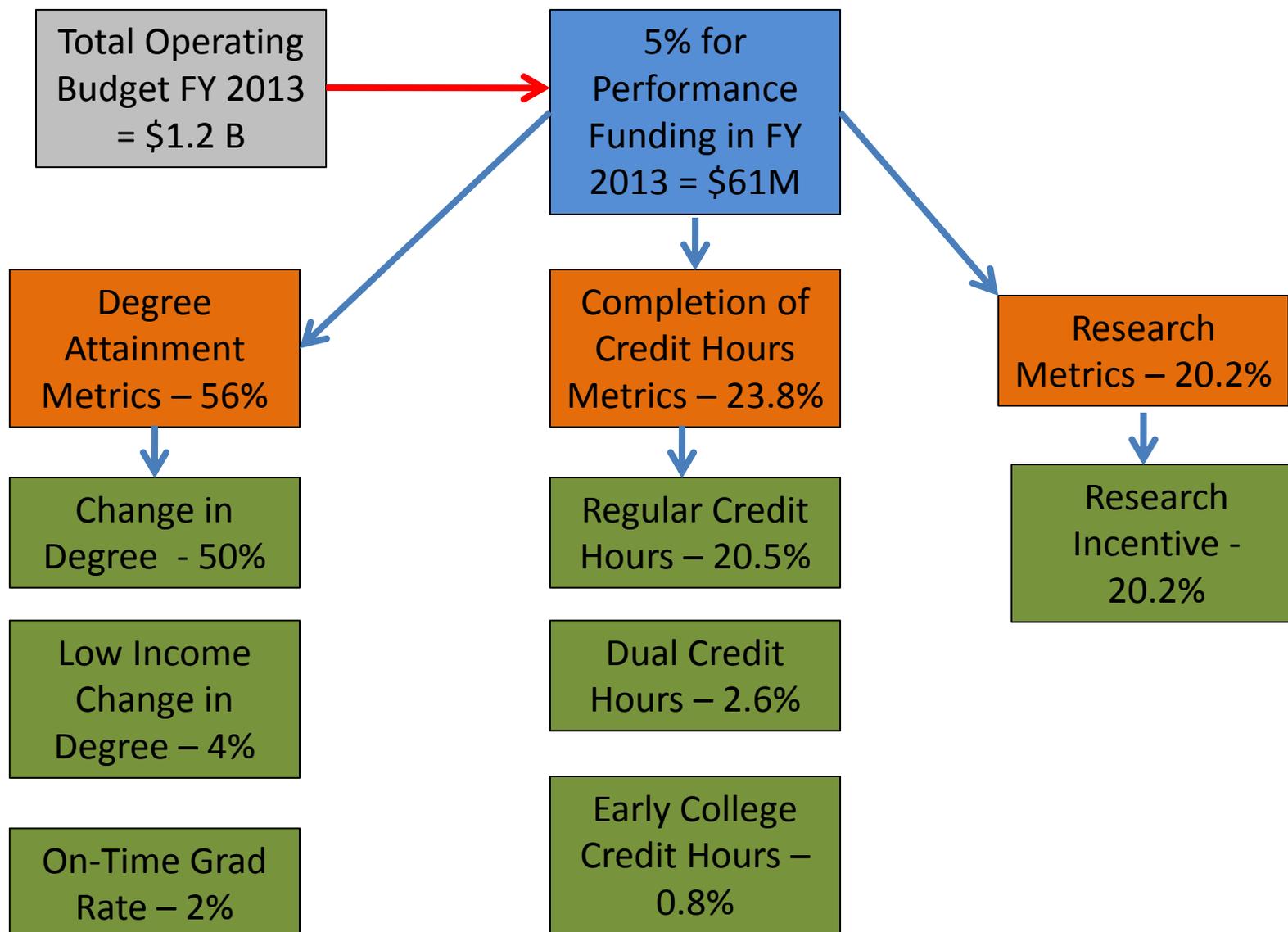


Weighting of Formula

- Commission determines a weight for each metric in the performance formula
- Often based on Commission priorities and goals that align with the strategic plan
- Weighting is discussed and modeled to understand the impact on each institution and campus
- High priority may be given to overall degree completion and on-time graduation rate improvement
- Other metrics are considered “supplemental” and may be weighted less
- Weighting is recommended by a Commission committee and voted on by the full Commission.
- Weighting can change as the budget progresses to the General Assembly



Weighting of Formula

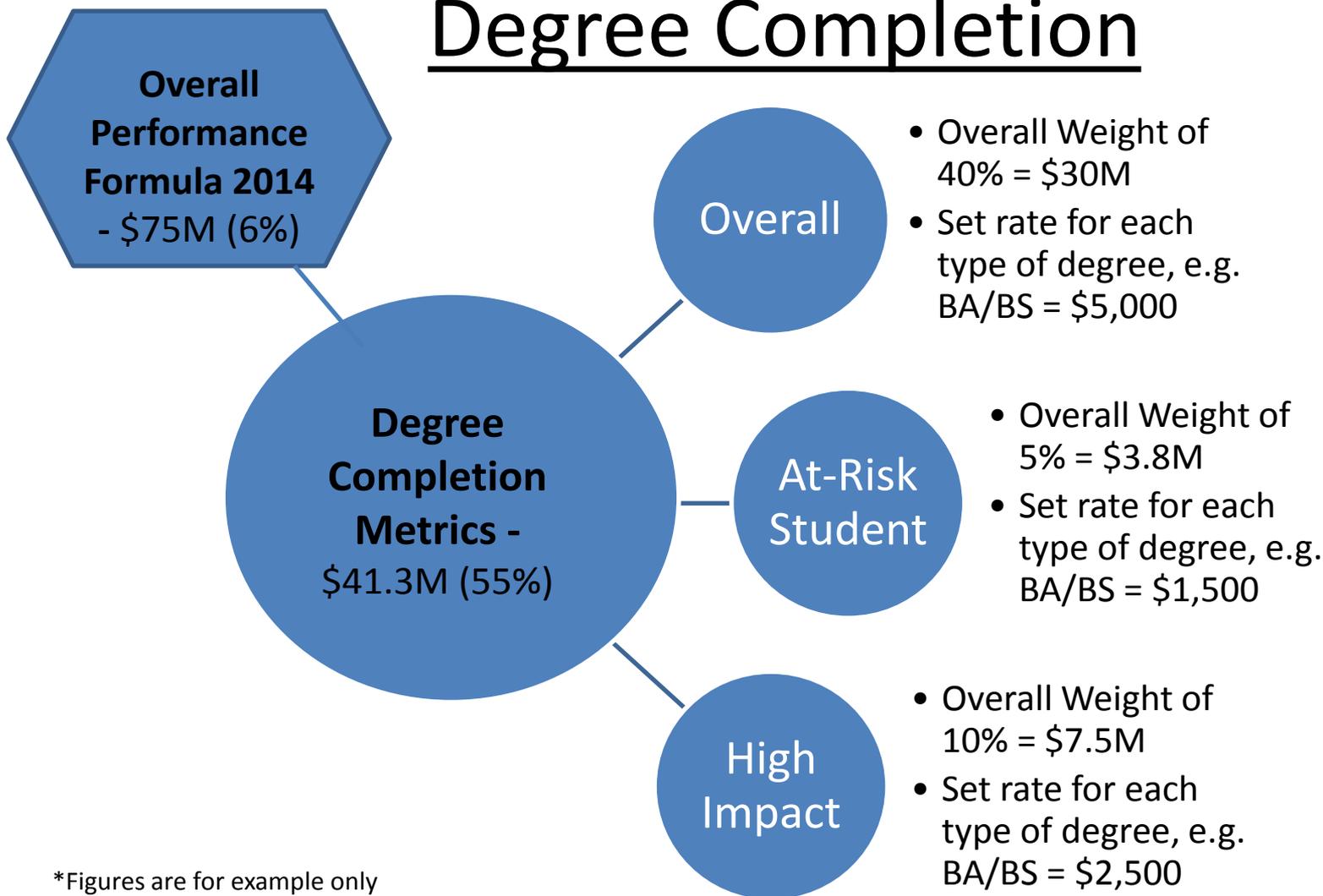




Modeling of Formula

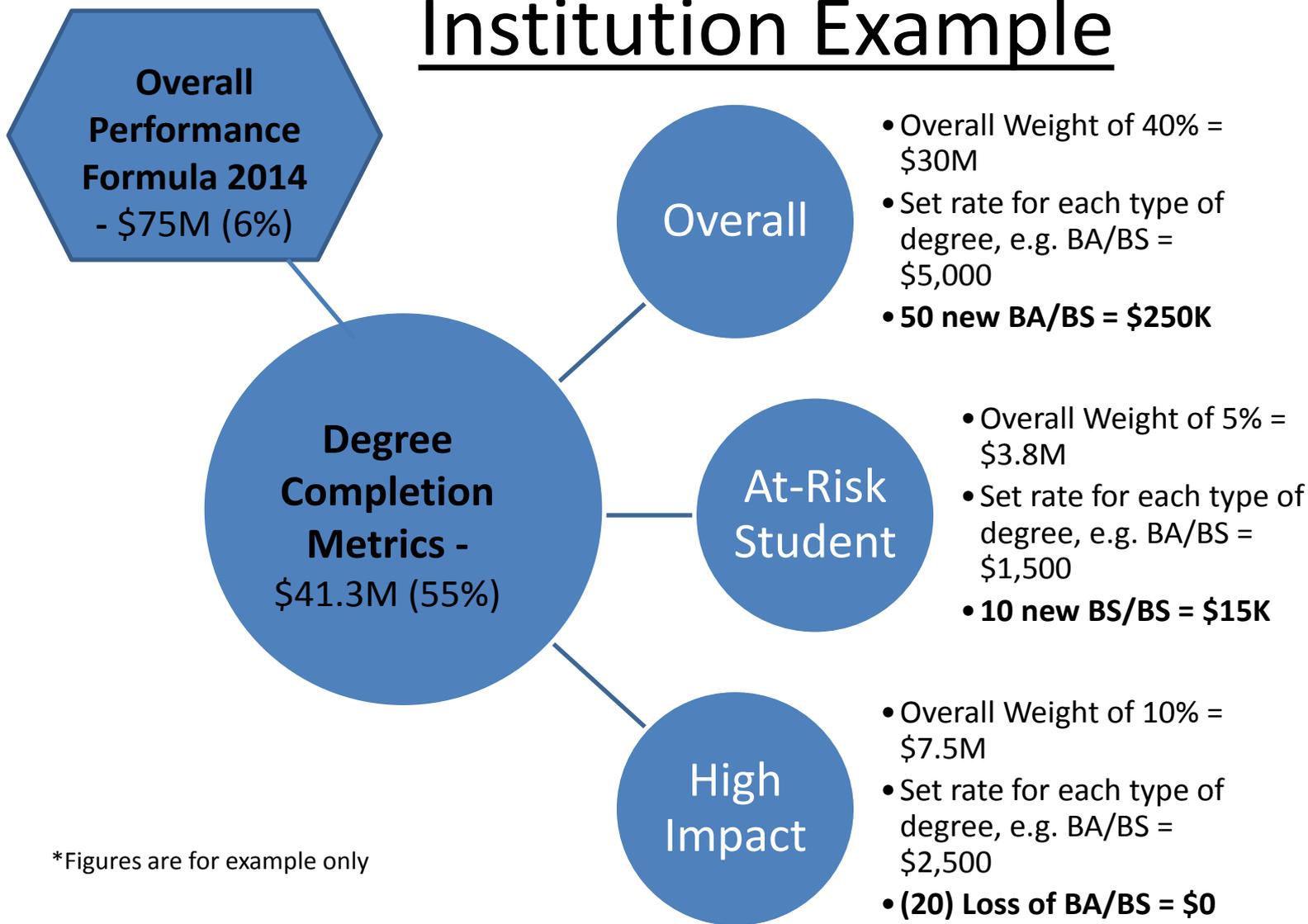
- Staff reviews each metric weight and calculates a dollar amount for each metric
- Using institutional data for each metric, staff assigns a “rate” for various metrics to reward performance
 - Institutions provide some of the formula metric data, other data is generated at the Commission level and verified by institutions
 - All data is reported to the Commission prior to weighting of metrics
- Based on how well an institution performs, the output data is used, along with the “rate”, to calculate an amount of funding for each metric and each institution

Modeling of Formula – Degree Completion



*Figures are for example only

Modeling of Formula – Institution Example



*Figures are for example only



Modeling of Formula

- Variables that change in the formula to run scenarios:
 - Weight of each metric
 - “Rate” used on each output, e.g. amount for different degree types, meeting certain persistence goals, etc.
- Staff will run multiple scenarios with different weights and “rates” to understand impact on each institution/campus and the overall formula
- No campus will be penalized for negative data/formula results



Questions?



INDIANA COMMISSION
for
HIGHER EDUCATION

TO: Indiana State Budget Committee
FROM: Teresa Lubbers, Commissioner
DATE: December 1, 2011
SUBJECT: Performance Formula Revised Metrics for 2013-15, (HEA 1001-2011)

Since 2003, Indiana has funded a portion of higher education through performance metrics based on the state's educational and economic needs. Beginning with a single performance metric for research institutions, the performance formula has grown to seven metrics aimed at improving college completion, student success and Hoosier degree attainment. During the years in which the performance formula has been in existence, the Commission for Higher Education ("Commission") has refined and updated metrics in the performance formula to ensure alignment with the state's strategic goals.

2011-13 Performance Funding Metrics

The performance formula metrics established for the 2011-13 biennial budget were: Overall Degree Completion, Low-Income Student Degree Completion, On-time Degree Completion, Successful Completion of Credit Hours, Successful Completion of Dual Credit Hours, Successful Completion of Early College Hours and Research Funding Growth. These metrics emphasized a primary focus on degree completion and attainment along with increasing student success, and rewarded each institution for improvement in these areas.

In House Enrolled Act 1001-2011, the General Assembly requested that the Commission review and potentially revise the performance formula metrics in preparation for the 2013-15 budget. Specifically, the General Assembly required the following:

"Before developing higher education biennial request instructions for the biennium beginning July 1, 2013, and ending June 30, 2015, the commission for higher education shall collaborate with the public state educational institutions on a study of the Indiana's performance funding mechanism. The study shall involve a review of performance funding models in other states, detailed consideration of the funding measures and methodology, and recommendations for use of different measures and weighting of such measures to better recognize the unique missions of the various types of campuses (e.g., research; four (4) year comprehensive; two (2) year; and community colleges). Such deliberations shall result in recommended revisions to the mechanism being used in the biennium beginning July 1, 2011, and ending June 30, 2013. In order to incorporate these recommendations into the budget instructions and other preparations

associated with the development of the biennial budget for the biennium beginning July 1, 2013, and ending June 30, 2015, this study shall be completed before December 2, 2011, and submitted to the state budget committee for its review and consideration.”

The Commission set forth a plan in the summer of 2011 to address the requirements of the legislative mandate and created a list of tasks that should be accomplished to meet the deadline of December 2, 2011 and issue a report to the State Budget Committee.

Refining the Performance Funding Metrics

One of the first steps taken by the Commission, and one that played a key role in the development of the metrics, was reaching out to the seven public postsecondary institutions to gain feedback and recommendations regarding metrics that could be used in the performance formula. During July and August of 2011, Commissioner Lubbers met personally with each institution's President to discuss thoughts on the current performance formula and metrics. This provided an opportunity for university leadership to suggest changes, revisions and updates to the metrics directly to the Commission. This input was compiled by the Commission as a starting point for potential revisions to the performance formula metrics.

Starting in July 2011, the Commission began working with an external consultant, HCM Strategists, to help develop an inventory and comparative analysis of other states' performance-based funding models. From July through September of 2011, HCM Strategists worked on a multi-state assessment of the various performance based models used in other states. The report focused on states including Ohio, Tennessee, Pennsylvania and Washington, and provided an assessment of each state's performance model and a comparison to Indiana. In addition, HCM Strategists suggested options for Indiana to integrate into its performance formula based on successful practices employed by other states with well established performance funding models. The final report by HCM Strategists was provided to the Commission in August of 2011 and is included as an attachment to this document.

At the end of August 2011, the Commission had obtained initial feedback from each institution along with the HCM report analyzing other states' performance funding models. Based on this work, the Commission developed a matrix that categorized potential changes to the performance formula around trends and common themes. All seven institutions agreed on several aspects including: keeping metrics stable over time and minimizing changes; including a metric that focuses on low income student degree attainment; the need for research funding; including other types of degrees beyond associate and bachelor degrees; and general support for performance funding in Indiana. However, even with overall agreement in some metrics and themes, there were suggestions and changes to the metrics that were institution specific and not across the board.

Using the matrix as a starting point for further discussion, the Commission again sought institutional feedback from the institutions' Chief Financial Officers at a September 2011 meeting. This forum provided an opportunity for institutions to discuss proposed changes in a larger group setting and allowed the Commission to inquire further about suggested changes. Also, institutions were able to provide feedback concerning the HCM Strategists study and the preliminary findings in the report. In

addition to Commission staff and institutional staff, several Commission members were in attendance at the meeting and provided reaction to the suggested changes made by the institutions and the HCM report.

Another tool for the Commission during this process was a roundtable discussion with other states that had well established performance funding models. In August of 2011, Indiana invited Pennsylvania, Tennessee and Ohio to discuss their experience with performance funding. Several groups attended the meeting including Commission staff and Commission members, legislators, legislative staff and institutional staff. The meeting provided an open dialogue with those states as to how they created performance funding models, positive and negative effects of such models, and lessons learned based on their experiences. This opportunity to have face to face dialogue with major players in the performance funding initiative provided the Commission with relevant information to begin revisions to Indiana's metrics.

From July through September of 2011, the Commission compiled a comprehensive list of potential revisions to the metrics in the performance formula from institutions, Commission Members, other states and the HCM report. With the benefit of this information, the Commission began to work internally to narrow the large list of potential metrics to a more manageable list that could be implemented for the 2013-15 budget. Three key areas were identified as focus points for the new metrics: **Completion, Progression and Productivity**. The Commission selected metrics which would fit into one of the three focus points while keeping mission differentiation as a guiding consideration. During the Commission's annual retreat with all Commission members in October of 2011, feedback and thoughts on performance formula metrics were solicited and included in the development of the revised metrics.

Throughout October and November of 2011, Commission staff worked with a key group of Commission members familiar with the performance formula to finalize a list of revised metrics. The Commission selected metrics that fit within the three focus points and that were aligned with the Commission strategic plan *Reaching Higher*, focusing on mission differentiation, completion, progression and productivity.

Proposed 2013-15 Performance Funding Metrics

For the 2013-15 budget development process, the Commission recommends the following metrics for the performance formula (*included in more detail in Attachment A*):

Completion Metrics

- **Overall Degree Completion** – Resident only students. Includes 1 year certificates, associate degrees, bachelor degrees, masters degrees and doctoral degrees. This metric would be open to all institutions.
- **At Risk Student Degree Completion** – Resident only students. Includes 1 year certificates, associate degrees and bachelor degrees. Applies if the student graduating with the degree is a Pell recipient at the time of graduation. The metric would be open to all institutions.

- **High Impact Degree Completion** – Resident only students. Includes bachelor degrees, masters degrees and doctoral degrees in STEM related fields. STEM is defined as Science, Technology, Engineering and Mathematics based on national standards. Only research campuses would be open to this metric, IUB, IUPUI, PUWL and BSU.

Progress Metrics

- **Student Persistence Incentive** - Resident only students. Provides an incentive if a student successfully completes a set number of credit hours at an institution. Would provide an incentive at the 2 year institutions for students meeting 15, 30 and 45 credit hours, and at 4 year non-research campuses 30 and 60 credit hours. The metric would be open to those non-research campuses, Ivy Tech, Vincennes, USI, ISU, PUC, PUNC, IPFW, IUE, IUK, IUSB, IUS, and IUE.
- **Remediation Success Incentive** – Resident only students. Provides an incentive to the 2 year institutions for students who successfully complete a remediation course and then successfully complete a gateway college level course. Would apply only to those courses in math and english. The metric would be open to Ivy Tech and Vincennes.

Productivity Metrics

- **On-Time Graduation Rate** – Resident only students, first time, full time. Provides an incentive for improvement in the on-time graduation rate at 4 and 2 year institutions. On-time graduation rate is considered 4 years for 4 year institutions and 2 years for 2 year institutions.
- **Institutional Defined Productivity Metric** – This metric would be selected by each institution and submitted to the COMMISSION for approval. The metric would need to align with the strategic plan of the institution and focus on reducing the cost of attendance to the student. The metric will differ by each institution but is geared to rewarding an institution for improving productivity in some manner.

Recommendations and Next Steps

The Commission believes these metrics reflect the priorities of the state with regard to incentivizing college completion, Hoosier degree attainment and overall student success. The revised metrics reflect mission differentiation and continue to measure each institution against itself, not against each other.

Regarding the allocation recommendation for the performance formula, the Commission would recommend that the level of funding for performance formula increase from the current level of 5% to 6% in 2014 and 7% in 2015. Depending on the overall appropriation amount in those years the total dollars will change, but the Commission is committed to increasing the performance formula allocation to those levels in the next biennium. However, the Commission is not prepared at this time to recommend the weighting of each metric in the formula due to the lack of appropriate data. In addition, adjusting the weighting of each metric during the budget development process rather than setting them in place earlier, gives the Commission another tool when developing the 2013-15 budget recommendation.

The Commission plans to vote on the revised metrics during the December 9, 2011 meeting. Since this report is being provided prior to that vote, the revised metrics are still considered in draft form until the Commission formally considers the proposal. Once the Commission votes on the final set of metrics, the Commission will provide an update to the State Budget Committee.

Dual credit and research are not included in the list of revised metrics as compared to previous years. Several members of the Commission and others felt these metrics should be funded outside the performance funding allocation.

Attachment A

Indiana 2013-2015 Performance Funding Metric Definitions

FINAL

December 9, 2011

- **Degree Completion Metrics:**

- **Overall Degree Completion – (Affects all institutions)**
 - Calculates the change in degrees conferred over a 3 year period rolling average (2006 through 2011; average of 2006 - 2008 versus 2009 - 2011).
 - For resident students only (no reciprocity)
 - Applies to 1 year certificates and associate degrees conferred at 2 year institutions
 - Applies to bachelor, masters and doctoral degrees conferred at 4 year institutions
- **At Risk Student Degree Completion – (Affects all institutions)**
 - Calculates the change in degrees conferred over a 3 year period rolling average (2006 through 2011; average of 2006 - 2008 versus 2009 - 2011).
 - For resident students only (no reciprocity)
 - Only those students who were eligible for Pell when they graduated from the institution
 - Applies to 1 year certificates and associate degrees conferred at 2 year institutions
 - Applies to bachelor degrees conferred at 4 year institutions
- **High Impact Degree Completion – (Affects four year research campuses: IUB, IUPUI, PUWL and BSU)**
 - Calculates the change in degrees conferred over a 3 year period rolling average (2006 through 2011; average of 2006 - 2008 versus 2009 - 2011).
 - For resident students only (no reciprocity)
 - For specific degree types that are granted in STEM fields as defined by national standards
 - Applies to bachelor, masters and doctoral degrees conferred by the institutions

Note: High Impact and At Risk metrics will be funded independently at levels lower than the primary metric of overall degree completion.

- **Progression Points:**

- **Student Persistence Incentive – (Affects all non-research campuses)**
 - Calculates the change in headcount over a 3 year period rolling average (2006 through 2011; average of 2006 - 2008 versus 2009 - 2011).
 - Applies to all resident undergraduate students (no reciprocity)

- Progress point accumulation requires the student to complete all credits at the same institution. Dual credit courses and transfer credits are not eligible for the incentive.
 - For 2 year campuses, number of students who successfully complete 15, 30 and 45 hours
 - For 4 year non-research campuses, number of students who successfully complete 30 and 60 credit hours
- **Remediation Success Incentive – (Affects 2 year institutions)**
 - Calculates the change over a 3 year period rolling average (2006 through 2011; average of 2006 - 2008 versus 2009 - 2011).
 - Applies to resident students only (no reciprocity)
 - Applies only to remedial and gateway courses in Math and English
 - Student must complete both remedial courses and gateway college level courses at the same institution
 - For 2 year institutions that provide remedial courses to students enrolled at the campus
 - Applies to students who successfully complete both remedial classes and gateway college level course
- **Productivity Metrics**
 - **On-time Graduation Rates – (Affects all institutions)**
 - Calculates the change in FTE over a 3 year period rolling average (2006 through 2011; average of 2006 - 2008 versus 2009 - 2011).
 - Applies only to resident, undergraduate, first time, full time students (no reciprocity)
 - Measures the graduation rate for institutions based on type of campus
 - For 2 year institutions, the graduation rate achieved in 2 years
 - For 4 year institutions, the graduation rate achieved in 4 years
 - **Institution Defined Productivity Metric - (Affects all institutions)**
 - Each institution will provide one productivity metric linked to their strategic plan
 - Institutions will provide their recommended metric to CHE in January 2012
 - CHE will review the proposed productivity metrics and discuss with the institutions in order to reach an agreement on individual metrics
 - Productivity metric should focus on reducing cost of attendance for students

Funding Allocation:

- Will be a percentage of annual operating appropriation (2012-13)
- Currently 5% in 2013, \$61M
- **Grow to 6% in 2014 and 7% in 2015**

Items to be funded outside of the Performance Funding Formula (Will determine funding through CHE Budget recommendation)

- Dual Credit Successful Completion

- Improving Graduation Rates

- Research Incentive

Indiana Performance Formula Funding - By Institution
2011-13 As-Passed Higher Education Budget

| | Successful Completion Credit Hour | Dual Credit Successful Completion | Early College Successful Completion | Low Income Degree Change | On-Time Degree Change | Change in Degree Overall | Research Incentive Funding | Total Perf. Form. Funding | % of Perf. Form. Funding |
|---|-----------------------------------|-----------------------------------|-------------------------------------|--------------------------|-----------------------|--------------------------|----------------------------|---------------------------|--------------------------|
| Indiana University | | | | | | | | | |
| Bloomington | \$0 | \$52,875 | | \$0 | \$0 | \$0 | \$1,114,694 | \$1,167,569 | 1.9% |
| East | \$185,393 | \$8,625 | | \$0 | \$0 | \$720,000 | | \$914,018 | 1.5% |
| Kokomo | \$63,446 | \$20,625 | | \$102,375 | \$0 | \$1,450,000 | | \$1,636,446 | 2.7% |
| Northwest | \$284,544 | \$9,750 | | \$0 | \$0 | \$60,000 | | \$354,294 | 0.6% |
| South Bend | \$318,327 | \$22,125 | | \$44,625 | \$0 | \$920,000 | | \$1,305,077 | 2.1% |
| Southeast | \$307,066 | \$0 | | \$10,500 | \$16,806 | \$0 | | \$334,371 | 0.5% |
| IUPUI Health | \$43,121 | \$0 | | \$0 | \$0 | \$0 | \$2,898,934 | \$2,942,055 | 4.8% |
| IUPUI General Academic | \$444,668 | \$15,375 | | \$480,375 | \$25,535 | \$7,100,000 | \$2,197,800 | \$10,263,753 | 16.8% |
| IU Totals | \$1,646,564 | \$129,375 | \$0 | \$637,875 | \$42,340 | \$10,250,000 | \$6,211,428 | \$18,917,582 | 31.0% |
| Purdue University | | | | | | | | | |
| West Lafayette | \$0 | \$0 | | \$475,125 | \$777,875 | \$0 | \$6,101,576 | \$7,354,576 | 12.0% |
| Calumet | \$235,930 | \$22,875 | | \$168,000 | \$30,479 | \$1,260,000 | | \$1,717,284 | 2.8% |
| North Central | \$0 | \$112,875 | | \$57,750 | \$0 | \$1,350,000 | | \$1,520,625 | 2.5% |
| IPFW | \$513,333 | \$50,625 | | \$84,000 | \$42,794 | \$2,350,000 | | \$3,040,751 | 5.0% |
| PU Totals | \$749,262 | \$186,375 | \$0 | \$784,875 | \$851,148 | \$4,960,000 | \$6,101,576 | \$13,633,237 | 22.3% |
| Indiana State University | | | | | | | | | |
| Indiana State University | \$0 | \$5,025 | | \$228,375 | \$221,404 | \$0 | | \$454,804 | 0.7% |
| Univ. Southern Indiana | | | | | | | | | |
| Univ. Southern Indiana | \$345,243 | \$61,500 | | \$228,375 | \$98,852 | \$2,580,000 | | \$3,313,970 | 5.4% |
| Ball State University | | | | | | | | | |
| Ball State University | \$542,721 | \$13,125 | | \$0 | \$0 | \$580,000 | | \$1,135,846 | 1.9% |
| Vincennes University | | | | | | | | | |
| Vincennes University | \$692,408 | \$190,875 | | \$166,425 | \$0 | \$810,000 | | \$2,368,433 | 3.9% |
| Ivy Tech Community College of IN | | | | | | | | | |
| Ivy Tech Community College of IN | \$8,514,618 | \$976,125 | | \$397,727 | \$0 | \$11,356,800 | | \$21,245,270 | 34.8% |
| Total Perf. Formula | \$12,490,817 | \$1,562,400 | \$508,725 | \$2,443,652 | \$1,213,745 | \$30,536,800 | \$12,313,004 | \$61,069,143 | 100.0% |
| % of Perf. Formula | 20.5% | 2.6% | 0.8% | 4.0% | 2.0% | 50.0% | 20.2% | 100.0% | |

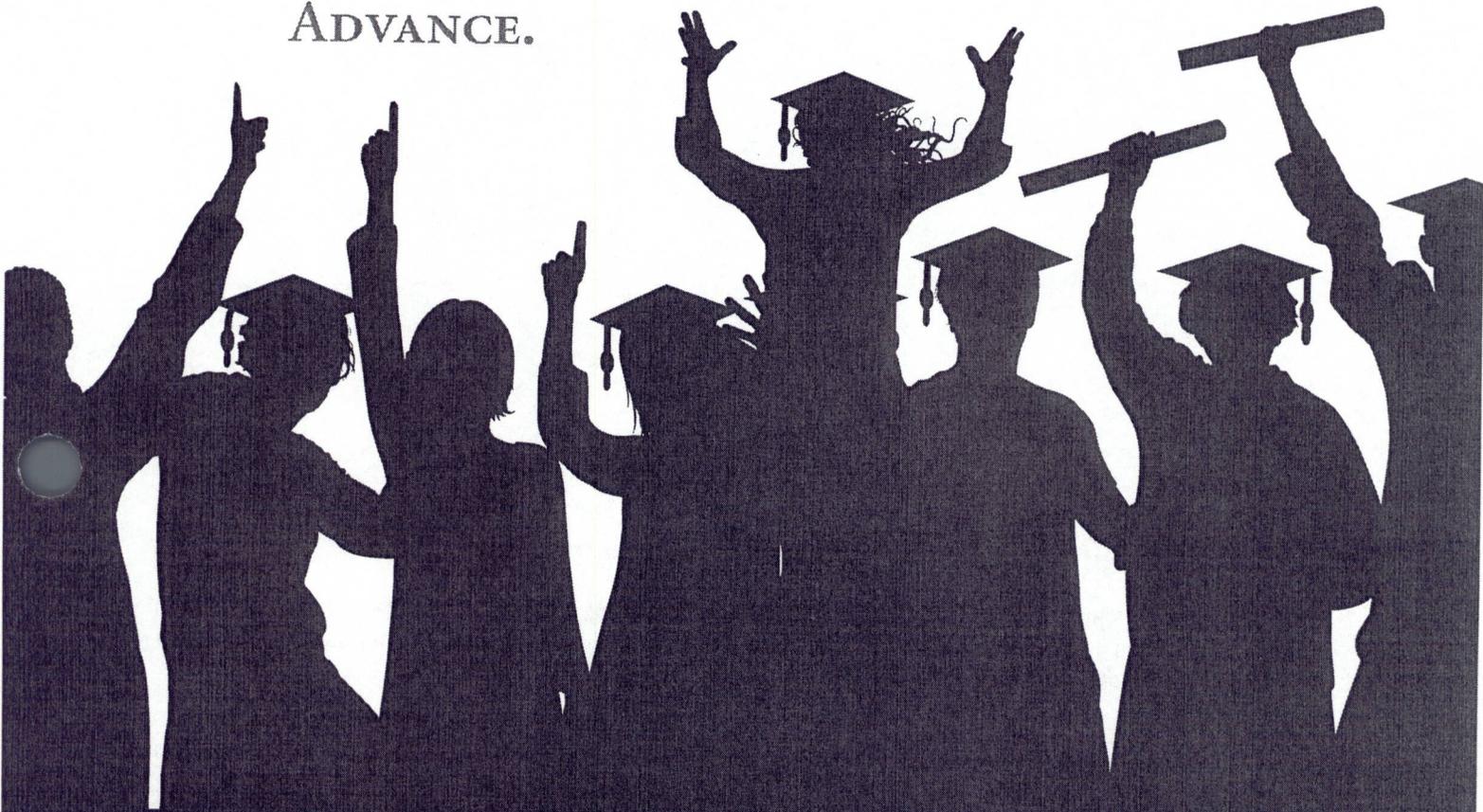


HCM

STRATEGISTS

WORKING
DRAFT

ALIGN. ADVOCATE.
ADVANCE.



PERFORMANCE FUNDING IN INDIANA

***AN ANALYSIS OF LESSONS
FROM THE RESEARCH AND OTHER STATE MODELS***

Performance Funding in Indiana

An Analysis of Lessons from the Research and Other State Models

This report was produced by HCM Strategists, LLC on behalf of the Indiana Commission for Higher Education (CHE). HCM Strategists is a public policy and advocacy consulting group focused on finding effective solutions in education and health.

The report responds to HEA 1001 (2011). Specifically, Section 289, which states:

“Before developing higher education biennial request instructions for the biennium beginning July 1, 2013, and ending June 30, 2015, the commission for higher education shall collaborate with the public state educational institutions on a study of the Indiana’s performance funding mechanism. The study shall involve a review of performance funding models in other states, detailed consideration of the funding measures and methodology, and recommendations for use of different types of measures and weighting of such measures to better recognize the unique missions of the various types of campuses (e.g. research; four year comprehensive; two year; and community colleges). Such deliberations shall result in recommended revisions to the mechanism being used in the biennium beginning July 1, 2011 and ending on June 30, 2013. In order to incorporate these recommendations into the budget instructions and other preparations associated with development of the biennial budget for the biennium beginning July 1, 2013 and ending June 30, 2015, this study shall be completed before December 2, 2011, and submitted to the state budget committee for its review and consideration.”

This report is intended to provide background information to CHE as it continues consultation with the state’s public higher education institutions.

Executive Summary

Like much of the nation, Indiana's economy is in the midst of transition. The state's long-held manufacturing jobs now require more advanced skills and new job sectors are emerging. Estimates are that more than three-quarters of future job openings in Indiana will be middle-skills or higher level jobs requiring at least some post-secondary education or training.

To meet this demand, Indiana must drastically increase the number of citizens with a postsecondary credential of value. Indiana currently ranks 41st nationally in the proportion of adults with a college degree. Freshman-to-sophomore retention rates at Indiana's public two-year colleges are at 48.5 percent, more than 10 points below the national average. Approximately two-thirds of Indiana students who start college don't finish on time. In 2009-10, the average public four-year graduation rate for the state was 30 percent.

One policy tool Indiana has embraced is a performance-based funding formula that aligns the state's higher education funding priorities with the state's policy priorities to increase student success and degree completion. First enacted in 2003 with a research incentive program designed to reward the state's major research universities that garner federal research dollars, Indiana now allocates five percent of overall state support for institutions through a performance funding formula. This formula incorporates various measures of student course and degree completion and applies to all of the state's colleges and universities.

TRACK SUCCESS

Indiana has adjusted its allocation of money through performance indicators based on the economic situation of the state. In 2007, with new money available, 65 percent of the increase in appropriations to the state's higher education institutions were allocated based on performance. With no additional money available for the fiscal years biennium 2010 and 2011, the Commission recommended allocating a portion of the base funding for institutions through a performance formula. This policy has been maintained in the most recent budget for 2012 and 2013. The Commission even incorporated performance indicators in the allocation of mid-session budget cuts for institutions in FY 2010. This consistency of policy, regardless of economic situation, is an important aspect of Indiana's overall higher education agenda.

Considerations for Indiana

Since 2007, several states have revised existing models, have newly implemented performance based funding models, or have shown interest in performance funding policies. Currently, approximately 20 states have performance funding policies in place or are actively pursuing implementation. As Indiana considers options to refine its formula, some lessons can be learned from how these states have dealt with a variety of issues and technical considerations.

A review of the research and analysis of other state models provides some insight into what performance funding policies and design elements provide for stability, promote campus-based change, and drive toward increased student success and completion. While the specifics in many state models are different, those states that have been able to sustain and advance often:

- **Keep it simple:** Prior attempts at performance funding may have failed because the model became bogged down with a lot of measures that made the system opaque and ultimately didn't drive change (too many measures, no ultimate focus on an overall goal - such as completion).

- **Start with a State Goal:** State goals for college attainment help establish clear expectations for policymakers, higher education leaders, faculty members and the public. These goals often are linked to the state's economic needs. With clear goals, states can align higher education policies with expectations.
- **Consult with Institutions:** Multi-state research of performance funding policies has demonstrated that a lack of institutional engagement and support led to program failure or abandonment due to political pressure. Policymakers should consider institutional concerns regarding funding stability, recognition of institutional differences and missions.
- **Incentivize Success of "At-risk" Populations:** Unless explicitly accounted for, performance funding models that reward success (i.e., degree completions) could have the unintended consequence of rewarding colleges that have better prepared students, or worse, provide incentives for colleges to make admissions criteria more restrictive.
- **Define Goals and Let Institutions Achieve Them:** While performance funding should establish priorities, how institutions achieve those priorities should not be micromanaged.
- **Make the Money Meaningful:** Much of the analysis into earlier models of performance funding and the often perceived or sometimes documented limited impact on increasing outcomes is often attributed to the fact that very little of an institution's total allocation is/was based on the performance formula. The common refrain is that if 2 percent of funding based on performance, the 98 percent of dollars that reward enrollment will win every time. It is difficult for such a small amount of funding to drive behavior and produce significant results. States need to make the amount of money allocated through performance meaningful enough to incentivize change. But, it is also a careful balance. Shifting too quickly or too drastically (without safeguards) can have unintended consequences and be politically unsustainable. Allocating a certain amount of existing dollars toward performance, designating new money for performance funding, and as Indiana did, distributing cuts using the same measures, can have a cumulative effect aligned with completion priorities that changes institutional behavior.
- **Recognize Institutional Differences:** Throughout the country, many prior attempts at performance funding failed to take into account the differing missions of various types of institutions and the types of students they served. More recent attempts have recognized that one size does not fit all. These models have incorporated measures that reflect various institutional strengths and priorities have refined metrics to apply different or more nuanced measures across institution-type, have incorporated varied weights across metrics, or have established achievement targets based on the mission of the school and the starting point of each institution. This refinement allows states to incorporate mission oriented metrics for various institution-types, such as graduate degrees for four-year institutions and student success in remedial education for two-year institutions.

Summary of Other State Models

In order to inform Indiana's deliberation on how to best advance its performance funding model, this paper also provides a detailed analysis of several specific state models. The analysis outlines the metrics used in each state, the amount of institutional funding allocated based on performance, and how the state accounts for differences in institutional mission. This analysis is not exhaustive of the state's that have performance funding models in place, but is intended to provide analysis to a variety of approaches states have adopted.

- Some of these states focus only on one sector – Florida, Washington (community colleges) and Pennsylvania (four-year institutions).
- Florida and Washington are examples of “base-plus” models that allocate bonus money to institutions for performance.
- Ohio, Pennsylvania and Tennessee are more refined models; each having a long history of performance funding and using advancements in data systems, state priority for increased degree production and lessons from prior years to refine their formulas.
 - *Pennsylvania* is an example of a model that embeds performance indicators into institutions' base allocations but remains primarily enrollment driven.
 - *Ohio and Tennessee*, offer insight into the next phase performance funding: eliminating enrollment incentive and driving 100 percent of base allocations through an outcome-based formula.

STATE SUMMARY

V.

| State | Sector | Metrics | Percent | Mission Differentiation | Base or Bonus | Notes |
|--------------|-------------|--|---|---|--|--|
| Indiana | All | Successfully completed credit hours; degrees awarded; on-time graduation; increase in degrees completed by low-income students; research incentive for four-year institutions | 5 percent | Research Incentive | Base | Only applies to resident students |
| Florida | 2-year only | Time to Degree; Successful Completion of College Preparatory Program; Completions in Targeted Critical Needs (Nursing, Teacher Preparation); Completers; Job Placement; Transfers | Less than 5 percent | N/A | Bonus in first year; transitioned to base allocation | |
| Washington | 2-year only | Student Success Points: Building toward college-level skills (basic skills gains, passing pre-college writing or math); First-year college retention (earning 15 or 30 college credits); completing college-level math (passing necessary college math courses); completion (earning a certificate, two-year degree or apprenticeship) | Less than 5 percent | N/A | Bonus | |
| Pennsylvania | 4-year only | Student success: Degrees conferred and closing achievement gaps; Access: Student enrollment and faculty diversity; Stewardship: Private support and use of resources. | 8 percent of state allocation | Yes: Institutions get to choose five metrics based on their institutional mission and strategic goals (within guidelines and approved by Chancellor) | Base | |
| Ohio | All | University main campuses: Course and degree completions weighted by cost of program. At-risk students and certain STEM fields have higher weight. Maintains funding for graduate and medical education (distributed through performance-based indicators). University regional campuses: Primarily course completions with shift to include degree completions, both weighted by cost of program. At-risk students and certain STEM fields have higher weight. Small portion reserved for campus contributions to the state's Strategic Plan. Community Colleges: Primarily enrollment based. Small (but increasing) portion through student success points (successful completion of developmental coursework; accumulation of 15 and 30 credit hours; degree completion; transfer with at least 15 credit hours) | Main campuses: 100% (FY 2011, 68% course completion; 10% percent degree completion which increases in proportion each year; 15% campus contribution to state strategic plan (graduate and medical school); Regional campuses: 100% (FY 2011, 90% course completions; 9% percent campus/mission contributions to state strategic plan); Community Colleges: 5% increasing annually. | Yes: Sector specific formulas | Base | Hold-harmless phase in period; campuses do not lose more than a certain percentage of prior year's funding. Increases each year. Formulas are run and unadjusted outcomes are shared with all institutions. |
| Tennessee | All | Four-year schools: student progress metrics (accumulation of 24, 48 and 72 hours); student completion metrics (bachelor and associate degrees; doctoral and law degrees; masters and ed specialist degrees; six-year graduation rate; degrees per 100 FTE; transfers out with at least 12 credits); institutional efficiency and functions (research and service expenditures). Includes an at-risk premium. Two-year schools: student progress metrics (accumulation of 12, 24 and 36 hours; remedial and developmental success; student completion metrics (associate degree; certificates granted; awards per 100 FTE; transfers out with at least 12 credits); institutional efficiency and functions metrics (work force training; job placements; dual enrollment students) | 100 percent with 4-year phase-in factor | Yes: different metrics for four-year and two-year schools. Plus, specific weights are applied to each outcome metric based on Carnegie Classification of institution. | Base | Phase in factor applied over first four years of model. Phase in accounts for difference between institution's enrollment-based allocation and institution's outcomes-based allocation. Factor drifts to 1.0 where it will have no impact on calculation |

Setting the Context

The Economic Need for Postsecondary Degrees

Nationally, there is no denying the value of a college education in today's evolving and increasingly knowledge-driven economy. The Great Recession had a disproportionate impact on citizens without college training. Many jobs are lost, and workers will need to seek employment in different industries or in new fields requiring different skills. These transitions have long been underway in the Midwest, with the region's manufacturing jobs requiring more advanced skills and new job sectors emerging. For Indiana, this skills mismatch, coupled with the estimated 1.5 million jobs by 2018 that will require at least some college education, means there will be far fewer workers with postsecondary education than the labor market will demand.¹

To meet this demand, Indiana needs to drastically increase the number of citizens with a postsecondary credential of value. Indiana currently ranks 41st nationally in the proportion of adults with a college degree.² Freshman-to-sophomore retention rates at Indiana's two-year public colleges are at 48.5 percent, more than 10 points below the national average. Approximately two-thirds of Indiana students who start college don't finish on time. In 2009-10 the average public four-year overall graduation rate for Indiana was 30 percent.³

The Rationale for Performance Funding

Traditional state support for colleges and universities is typically based on the number of students enrolled at the beginning of a semester. While this served the access agenda of the past several decades well, it is not strategically aligned with a completion agenda that aims not only to get students in the door but to ensure they successfully complete a college credential or degree program of value. As a result of this shift in priorities—from access only to access and success—many state policymakers are considering re-aligning funding policies to include outcomes-based incentives.

Performance funding, if properly designed, can be a powerful tool to promote improvement, refocus institutional priorities and increase efficiency. However, there is certainly some skepticism around the concept of linking performance to funding. Many early models of performance funding lacked sufficient linkage to strategic goals, relied on poor data systems, were top-down (e.g., lacked institutional consultation), and were inflexible in that all institutions were treated the same, regardless of institutional mission.⁴

Research into state performance funding policies has offered important insight into both the advantages and the limitations of such policies.

- *Performance Funding is a Means, Not an End*: States successful in sustaining performance funding policies often have strong strategic plans, priorities and statewide goals for higher education. Performance funding is integrated into many mechanisms and tools used to realize these priorities.⁵

¹ Carnevale, Anthony P., Nicole Smith, and Jeff Strohl, "Help Wanted: Projections of Jobs and Education Requirements through 2018," *Georgetown University Center on Education and the Workforce* (June 2010). <http://cew.georgetown.edu/jobs2018/>. (accessed June 22, 2011)

² Lee, John Michael Jr., Anita Rawls, "The College Completion Agenda: 2010 Progress Report," *College Board Advocacy and Policy Center* (2010). http://completionagenda.collegeboard.org/sites/default/files/reports_pdf/Progress_Report_2010.pdf. (accessed July 13, 2011)

³ "Reaching Higher: Strategic Initiatives for Higher Education in Indiana, State-level Dashboard of Key Indicators" *Indiana Commission for Higher Education*, (Feb. 2010) [http://www.in.gov/che/files/Final_2010_Update\(3\).pdf](http://www.in.gov/che/files/Final_2010_Update(3).pdf). (accessed July 13, 2011)

⁴ Kevin J. Dougherty and Rebecca S. Natow 2009, "The Demise of Higher Education Performance Funding in Three States," *Community College Research Center Brief* (2009) <http://ccrc.tc.columbia.edu/Publication.asp?UID=693> (accessed July 2, 2011)

⁵ Albright, Brenda. "Higher Education Performance Funding 2.0- Funding Degrees." *Lumina Foundation*, (2009) <http://www.luminafoundation.org/>



Performance Funding in a Time of Fiscal Constraint:

Early performance funding policies often disappeared as a whimsy of budget cuts. This trend has largely been reversed in the most recent recession, as state policymakers have looked to the policy as a way to direct scarce resources toward the priorities of student success and institutional efficiency. Further, in a time of fiscal constraint performance funding can also buffer against deep cuts in state support. The Pennsylvania State System of Higher Education (PASSHE) faced with a proposed 50 percent reduction in state funding, was able to set itself apart by pointing to the system's long history of self-imposed accountability, including the use of performance indicators to allocate a portion of the state's institutional allocation.

(Source: Lumina Foundation, Tracking Momentum, June 2011, Edition 4, http://collegeproductivity.org/sites/default/files/Tracking_Momentum_June_FNL_2.pdf, accessed July 15, 2011)

- *Performance Funding can Promote Campus-based Change:* Allocation of dollars based on performance can spur discussions about resource allocation, mission and priorities at the campus-level.⁶ Aligning funding with statewide priorities can lead to greater scrutiny of effectiveness of campus programs and services and promote better alignment between campus planning, budgeting and performance.⁷ States such as Ohio, Florida, Tennessee and Pennsylvania have documented how their policies drove campus-level change.

Cautions to Consider When Designing Performance Funding Policies

- *Lack of Buy-in:* Multi-state research of performance funding policies has demonstrated that a lack of institutional engagement and support led to program failure or abandonment due to political pressure. Policymakers should consider institutional concerns regarding funding stability, recognition of institutional differences and maintaining institutional autonomy.⁸
- *Poor Data:* Perhaps nothing is more important to building a sustainable and equitable performance funding policy than the data that feeds it. The data used in early models were often crude or inaccurate.⁹
- *Unstable Funding:* For policies to be successful and sustainable in the long-run, states must protect performance funding models that are only allocated with "add-on" dollars from budget cuts. If such protection is not possible, then states should consider embedding funding into the performance formula to ensure that the policy does not come and go with the economic tide.¹⁰

The History of Performance Funding in Indiana¹¹

Historically, Indiana's base funding for public colleges and universities is determined by enrollment increases. The more students a college enrolled the more support it received.

While the traditional enrollment-driven base formula still accounts for the bulk of all funding provided to each college, Indiana now allocates a portion of the base funds through a

collegeproductivity.org/sites/default/files/resources/TipsheetonPerformanceFunding.pdf, (accessed June 22, 2011)

⁶ Kevin J. Dougherty and Esther Hong, "Performance Funding as Imperfect Panacea: The Community College Experience," *Defending the Community College Equity Agenda*, (Baltimore: The Johns Hopkins University Press, 2006), 81-83.

⁷ Joseph Burke and Associates, *Funding Public Colleges and Universities for Performance* (Albany: Rockefeller Institute Press, 2002).

⁸ Kevin J. Dougherty, Rebecca Natow, Rachel Hare, and Blanca Vega, "The Political Origins of State-Level Performance Funding for Higher Education: The Cases of Florida, Illinois, Missouri, South Carolina, Tennessee, and Washington", *Community College Research Center*, (2011) <http://ccre.tc.columbia.edu/Publication.asp?UID=819>

⁹ Dougherty and Natow, 2009

¹⁰ Dougherty and Natow, 2009

¹¹ This section was compiled from a number of sources provided by the Indiana Commission for Higher Education (www.in.gov/che).

performance formula. Indiana's performance funding bases part of the dollars colleges receive on outcome measures (like degree production) over traditional input measures (like student enrollment) in order to promote progress toward the ultimate goal of improving education attainment in Indiana.

Indiana began performance funding in 2003, establishing an incentive fund to reward the state's research universities that garner federal research dollars. In 2007, 2009 and 2011 Indiana passed budgets incorporating performance based allocations, recommended by Indiana's Commission for Higher Education, for all higher-education institutions. These more recent efforts have moved Indiana to the forefront of national efforts to focus more on completion, allocate base dollars on performance (not just bonus add-ons), and incorporate more reliable, student-level data.

The 2007 budget provided incentives for an increase in the number of degrees completed, in on-time graduation rates, and in transfer rates from public two-year to four-year degree programs. The allocations also continued to fund the incentive program for research universities. Base funding for all colleges and universities remained tied to credit hours enrolled. Under this model for the 2007-09 budgets, of the marginal increase in funding from the state to public colleges and universities, 65 percent was based on performance funding.

In 2009, with no additional operating dollars for institutions, the commission put forward a budget recommendation that drove a portion of institutional base dollars through performance indicators. This included a shift of the enrollment component of the state's funding formula from "attempted credit hours" to "successfully completed credit hours." In order to be in the credit hour count, the student must complete the course (withdrawals and incompletes do not count) and have received a grade of at least a D-. In 2010, 90 percent of enrollment funds were based on attempted credit hours and 10 percent on completed hours. This ratio will shift to 100 percent completed hours in 2012. In addition to this enrollment component, institutions were funded based on five other priorities:

- increase in number of degrees awarded;
- increase in students graduating on time;
- degree completion by low-income students;
- increase in students transferring from two-year to four-year schools; and
- an incentive for Ivy Tech Community College and Vincennes University to provide non-credit workforce training courses. Most of the measures deal with resident undergraduate students only and do not count non-resident or graduate students.

The 2011 budget allocations maintained the transition from counting credit hours enrolled to credit hours completed. Schools also will continue to receive incentives for increases in the number of degrees produced each year; for increases in the number of on-time graduates; and for increases in the number of degrees awarded to low-income students. The research incentive for the public research universities was also continued. The transfer and workforce training incentives were removed from the formula as the state has worked to incorporate these priorities in other ways.

Over the 10-year period, cumulative funding allocated toward the performance formula is approximately 12 percent of state support for colleges' operating budgets. The 2011-13 budget increased the percent of base higher education funding reallocated through the performance formula to 5 percent, up from 2 percent in the prior biennium. (*see Appendix 1 for more detailed description of Indiana's formula*)



STATES ON THE MOVE

Several states recently passed legislation or have taken steps toward enacting performance based funding for colleges and universities. Among these states:

- The legislature in **Arkansas** directed the state's Higher Education Coordinating Board to base part (5 percent increasing to 25 percent) of each institution's funding on an outcomes-centered formula, beginning 2013-14. The formula will incentivize course and degree completion, critical needs of the state, and success of economically disadvantaged and nontraditional students.
- In **Illinois** the coordinating board must build its budget recommendations using "performance metrics designed to promote and measure student success in degree and certificate completion." The formula must encourage the success of low-income, minority and first-generation students, recognize unique missions and have extra considerations for two-year institutions. No percentage allocation was specified.
- Legislatures in **Arizona, Colorado, Mississippi** and **Texas**, want to know how to use outcomes-based metrics in funding decisions and have directed their states higher education authorities to put forward recommendations.

(Source: Lumina Foundation, Tracking Momentum, June 2011, Edition 4, http://collegeproductivity.org/sites/default/files/Tracking_Momentum_June_FNL_2.pdf, accessed July 15, 2011)

The 2011-13 biennial budget sustained Indiana's commitment to performance funding. However, the legislature also called upon the Commission to conduct a review of performance funding models in other states, with consideration for how those models account for different missions across institutions types, through refined metrics, measures and weights. The rest of this report aims to provide that analysis.

Indiana in the National Context

The incidence of performance funding for higher education institutions has fluctuated over the past several decades. An analysis of state adoption of performance funding found that 26 states adopted some form of performance-based funding between 1979 and 2007.¹² Some of these states have abandoned their models because they were too complicated, lacked a meaningful amount of money to drive change, or relied on poor data. Since 2007 several states have revised existing models, have implemented performance based funding models, or have shown interest in performance funding policies. Currently, approximately 20 states have performance funding policies in place or are actively pursuing implementation.

Indiana is considered a leader in the latest phase of performance-based funding. Many recent models differ from the typical earlier versions of performance-based funding in that they often are focused on a smaller set of outcomes, have more refined metrics (a result of advances in state data systems), and are a part of institutional base funding rather than exclusively bonus "add-ons," which are often the first to go in tight fiscal environments.

Considerations for Indiana: Lessons from Other State Models

There have been many studies about the adoption, implementation, and revision of performance funding formulas for higher education. These analyses shed light on some of the major concerns, policy and political implications and successes of performance funding. Indiana's model addresses many lessons learned from earlier performance funding structures, and it is aligned with many of the more advanced features of recent models.

¹² Dougherty and Natow, 2009

NEXT PHASE

Considerations for Indiana's Performance Funding Model:

The next phase of performance funding for Indiana should continue to advance the state's policy agenda with:

- 1 A continued focus on student success,
- 2 A meaningful amount of institution's base and/or additional funding toward performance outcomes; and
- 3 Refined metrics to account for institutional differences.

The Early Lessons Indiana's Model Accounts For:

- **Simplicity Counts:** Prior attempts at performance funding may have failed because the model became bogged down with a lot of measures that made the system opaque and ultimately didn't drive change (too many measures, no ultimate focus on an overall goal - such as completion).^{13,14} South Carolina is one shining example of a complicated system that drowned itself with measures. More recent formulas have focused on a limited number of priority indicators that drive toward the same goal of student success.¹⁵ Indiana's focus on course and degree completion as the primary factors in its performance funding formula is in line with this objective.
- **"At-risk" Populations Remain a Priority:** Unless explicitly accounted for, performance funding models that reward success (i.e., degree completions) could have the unintended consequence of rewarding colleges that have better prepared students, or worse, provide incentive for colleges to make admissions criteria more restrictive.¹⁶ States have addressed this issue in a variety of ways, such as rewarding student progress in the form of course completions, credit accumulation, or other key benchmarks of success.¹⁷ Another approach is to add extra weight for the progress or degree completions of students considered "at-risk." States could also address this issue by rewarding improvements in closing specific racial/ethnic performance gaps. *Indiana's premium for at-risk students ensures the importance of success for this population does not succumb to unintended consequences.*
- **Predictability of Funding:** It is a fair contention that institutions need a certain level of predictability in funding. Prior models that withheld funds until performance was validated certainly did not allow for great predictability. That doesn't mean, however, that performance-based funding can't provide some level of predictability. Many models adjust allocations based on prior year(s) performance. Further, many states are phasing-in the new formulas or, like Ohio, have a stop-loss provision that does not allow an institution to lose more than a certain percentage of the prior year's funding level. These phase-in approaches allow institutions time to adjust policies and programs in response to new funding formulas. Another aspect that allows for stabilization is the use of averages. Ohio and Tennessee both use three-year averages for performance. Tennessee points to this averaging as a source of predictability for institutions (all data come from the same three years) and notes that the lag in data allows institutions time to plan for any anticipated changes in funding levels. *Indiana's use of data from prior years and multiple-year averaging provides for predictability.*

¹³ Albright, 2009

¹⁴ Lumina Foundation for Education, *Four Steps to Finishing First in Higher Education, Step 1: Rewarding Institutions That Focus on Students' Completing Quality Programs. Not Just Attempting Them* (2009), <http://collegeproductivity.org/sites/default/files/FourStepsCompletion2011.pdf> (accessed June 25, 2011).

¹⁵ Joseph Burke and Andreea M. Serban, Performance Funding for Public Higher Education: Fad or Trend? *New Directions for Institutional Research* (1998), 42-47.

¹⁶ Dougherty, et al., 2011

¹⁷ Nancy Shulock, "Concerns About Performance-based Funding, and Ways that States are Addressing these Concerns," *Institute for Higher Education Policy and Research*, (May, 2011) http://www.csus.edu/ihelp/PDFs/B_performance%20funding_05-11.pdf

- **Use the Most Reliable and Fair Metrics Available:** States should only incorporate measures for which there are good data. Prior attempts at performance funding, such as in South Carolina, not only incorporated too many measures but folded in metrics that, at best, were difficult to gauge, such as alignment of curriculum with institutional mission. States should continually evaluate and modify measures as data systems become more refined. *The metrics incorporated in Indiana’s performance funding formula are easily measured and understandable. The use of multiple year averages for many of the metrics provides additional stability.*

Advanced Performance Funding Features Indiana’s Model Includes:

- **Imbed Performance in the Base:** Prior performance funding models were often exclusively “add-ons” to the base funding for institutions, providing bonus incentives for institutions to meet certain outcomes. These programs were not protected from the ups and downs of the state revenue cycle and often were eliminated or not funded in reduced budget environments.¹⁸ While some of the newer models incorporate these “add-on” components, more recent models also imbed performance formulas into the base allocations to institutions. The belief is that these priorities for student success must be part of the central funding allocation in order to drive fundamental change. *Indiana’s model currently reallocates a portion of base funding to institutions through the performance formula. The expectation is that if new dollars are available in the future these “add-ons” would also be distributed based on institutional performance.*
- **Define Goals and Let Institutions Achieve Them:** One recent review of six states’ performance funding policies found that, among other things, opponents of performance funding felt that the policy intruded on the autonomy of higher education officials to determine course offerings and other campus level decisions.¹⁹ While performance funding should establish priorities, how institutions achieve those priorities should not be micromanaged. *Indiana has established expectations and strategic goals to increase educational attainment for its citizens. One policy measure aligned with these goals is the state’s performance funding model through which it drives funds for improvements in student success and completion. The campus-level strategies institutions employ to achieve these goals is not mandated.*
- **Account for Different Starting Points:** Performance models, especially those that drive base allocations to institutions, should protect against excessive shifts in funding. A key way to ensure this is to recognize that institutions will have varying starting points. Some states do so by looking at year-to-year institutional improvement. Other states, such as Pennsylvania, factor in a number of different institutional-specific goals. *Indiana currently looks at year-over-year improvement for each institution. This ensures institutions are consistently working to improve their performance and inherently protects against large shifts in funding.*
- **Make the Money Meaningful:** Much of the analysis into earlier models of performance funding and the often perceived or sometimes documented limited impact on increasing outcomes is often attributed to the fact that very little of an institution’s total allocation is/was based on the performance formula. The common refrain is that if 2 percent of funding is based on performance, the 98 percent of dollars that reward enrollment will win every time. It is difficult for such a small amount of funding to drive behavior and produce significant results. States need to make the amount of money allocated through performance meaningful enough to incentivize change. But, it is also a careful balance. Shifting too quickly or too drastically (without safeguards) can have unintended consequences and be politically unsustainable. One approach is to start with a meaningful amount (five percent or more) and compound annually. States like TN and OH that have implemented formulas allocating nearly all institutional dollars

¹⁸ Dougherty, et al., 2011

¹⁹ Dougherty, et al., 2011

on outcomes have phase-in mechanisms to make the initial years a meaningful incentive but also allow institutions time to adjust to the new policies. Allocating a certain amount of existing dollars toward performance, designating new money for performance funding, and as Indiana did, distributing cuts using the same measures, can have a cumulative effect aligned with completion priorities that changes institutional behavior. *Indiana's increase to five percent of the base institutional allocation and its commitment to allocate new money through performance certainly meets these criteria. But several states, such as Ohio and Tennessee, have begun to allocate nearly all of an institution's allocation on the basis of outcome measures.*

Considerations for Indiana to Advance its Performance Funding Model:

- **One Size Does Not Fit All:** Throughout the country earlier attempts at performance funding failed to take into account the differing missions of various types of institutions and the types of students they served. More recent attempts have recognized that one size does not fit all and have refined metrics, weights or achievement targets based on the mission of the school and the starting point of each institution. Some states, such as Pennsylvania allow institutions to choose a limited number of institution specific indicators against which they are measured. Others, such as Ohio, incorporate different indicators into the formula for each institution type. Tennessee

WHAT ARE MOMENTUM POINTS?

Momentum Points, used in Washington and Ohio (for community colleges) are based on research done by the Community College Research Center at Columbia University. Momentum points are key academic benchmarks that once accomplished, significantly improve students' chances of completing degrees and certificates. These momentum points are meaningful for all students across demographic characteristics (race, age, income, employment status), academic program or entering skill levels (basic skills, remedial, workforce education, academic transfer), intensity of enrollment (part-time or full-time enrollment), and type of institution attended (urban, rural, large, small, community college, technical college). Momentum points fall into four general categories:

- 1 Building towards college level skills (basic skills gains, passing precollege writing or math)
- 2 First year retention (earning 15 then 30 college level credits)
- 3 Completion of college-level "gateway" coursework.
- 4 Completions (degrees, certificates, apprenticeship training)

(Source: Community College Research Center Research Tools, Using Longitudinal Data to Increase Community College Student Success: A Guide to Measuring Milestone and Momentum Point Attainment (2008) http://168.156.9.142/college/education/ccrc_research_tools_jan08.pdf, [accessed July 7, 2011].)

changes the weight applied to various indicators based on the type of school (determined by Carnegie Classification) and closeness of particular indicators to the institutions mission. This refinement allows states to incorporate graduate degrees for four-year institutions and student success in remedial education for two-year institutions. Indiana's research incentive is a direct element of mission differentiation. *The state's inclusion of a variety of metrics also recognizes the variation between institutions, from the community college sector to major research universities. With advanced data and more refined metrics, Indiana could push differentiation further to truly encompass the state's policy priorities and the role each institution plays in advancing them.*

- **Balance Enrollment with Performance:** States such as Ohio and Tennessee have completely eliminated the enrollment component of their models and now drive funds based solely on outcome metrics such as course and degree completion and other factors of student and institutional success.²⁰ This advancement goes hand-in-hand with refining metrics to account

²⁰ Note: Ohio's shift from enrolled credit hours to completed credit hours only applies to its four-year institutions. The state's two-year schools remain primarily funded based on FTE with a serious student progression metrics ("momentum points") driving a small, but

for mission, and it is argued by policymakers to have many policy advantages, including a more efficient and equitable formula that drives toward the state's primary policy objective of increased college attainment. *Indiana has started to shift its definition of enrollment from "attempted credit hours" to "successfully completed credit hours" but many states have gone even further. This shift also should be balanced with the state's goal to increase enrollment in its two-year system. Again, this underlines the importance of accounting for institutional mission and differentiation of metrics or refinement of how metrics are applied across the sectors.*

- **Consider Certificates:** Certificates of one year or more are consistently linked to increased earnings. Further, job-growth estimates for Indiana point to 55 percent of jobs being "middle-skill" positions requiring some education beyond high school but not a four-year degree.²¹ Tennessee, also a state with high demand for middle-skill workers, includes certificate completions among the metrics for two-year schools. *Indiana could consider focusing not only on increased degree completion (associates or higher) but also on completion of long-term postsecondary certificates. Once again, though, completion needs to be the focus. Individuals who complete long-term programs of study make significantly more money than those who enroll in programs but do not complete them.*²²

THE CASE FOR CERTIFICATES

Research in one state found that long-term certificates yielded increases in average income nearly identical to those of associate degrees: around 40 percent for women and 20 percent for men. Nursing and STEM certificates, in particular, are linked to some of the fastest growing job fields in the country. This trend is certainly present in Indiana: Hoosier Hot 50 Jobs, a list of high-growth occupations compiled by the Indiana Department of Workforce Development, includes a number of fast growing middle-skill careers. The 2009 Hot 50 Jobs list included dental hygienists, registered nurses, sales representatives, dental assistants, and licensed practical and vocational nurses, careers that require an associate's degree or less, are projected to see long-term growth, and pay wages well above the state's median earnings.

(Sources: Certificates Count <http://dl.dropbox.com/u/13281059/Other%20Certificates%20Count%20Release%20Docs/Certificates%20Count%20FINAL%2012-05.pdf> and Hoosier Hot50 Jobs <https://netsolutions.dwd.in.gov/hh50/>)

- **Account for Value of Credential or Degree to State and Student:** Degrees or certificates in STEM fields (Science, Technology, Engineering and Math) or other high-need areas can be prioritized within a performance-based funding formula. Ohio, for example includes a premium (similar to the at-risk student incentive) for certain STEM course and degree completions that are in-line with growing job areas. *Indiana could use workforce data to further align its funding incentives with the needs of the state, providing extra benefit to institutions that produce increased degree completions in high-needs workforce areas. This step could also encourage campuses to realign programs and strategies to meet the economic needs of the state.*
- **Promote Efficiency:** Another priority for many states is to ensure institutions are being good stewards of tax-payer dollars, applying sound resource-management principles and cost-saving practices. Several states promote efficiency, while also recognizing that costs will differ across program and degree type. Ohio includes a cost-based adjustment to its formula that weighs course and degree completions by their average (across system) cost. Tennessee does a similar adjustment by applying a salary multiplier to its formula to recognize that institutions in different Carnegie classes have different operating costs. The use of average degree (or course)

increasing, proportion of the institutional allocation.

²¹ "Skills2Compete—Indiana: Meeting the Demands of a 21st-Century Economy", *National Skills Coalition*, (2010), http://www.nationalskillscoalition.org/states/state-coalitions/indiana/s2cindianaplatform_2010-10.pdf

²² Brian Bosworth, "Certificates Count: An Analysis of Sub-baccalaureate Certificates," *Complete College America*, (2010) <http://dl.dropbox.com/u/13281059/Other%20Certificates%20Count%20Release%20Docs/Certificates%20Count%20FINAL%2012-05.pdf>

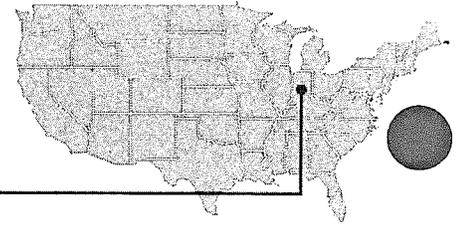
costs is a mechanism for encouraging institutions to reduce their costs thereby increasing the “share” the state supports of their actual costs. These approaches promote savings but do not require institutions to do so, recognizing that institutions and their trustees have the ultimate authority to drive their own expenditures. *Indiana could consider an efficiency measure that promotes efficiency while recognizing variation in cost across degree programs.*

- **Institutional Growth vs. Total Contribution to System:** Indiana currently uses year-to-year growth to determine budget allocations; those institutions with greater improvement over their prior year performance receive more funding. Ohio and Tennessee take a slightly different approach – allocating money to institutions based upon institutions’ contribution to overall system performance on a number of indicators, with no predetermined goal or improvement target established. The belief is that this pari-mutuel distribution provides an underlying incentive for institutions to always improve performance while the incorporation of multiple indicators and weights refined to reflect institutional mission provides each institution opportunity to benefit/take advantage of their strengths. *Tennessee and Ohio take this approach to reflect the need for their state to increase educational attainment overall. The focus is not on each institution to improve performance but on the importance of the system to produce more graduates.*
- **Student Transfers:** Successful transfer between institutions can be an indicator of success for the transferring institution. Several states, such as Florida, Tennessee and Ohio include this metric in the state’s performance funding model. Each of these state’s counts successful transfer as those students who transfer with a minimum number of college-level credits (12-15). *Indiana included transfer and workforce training incentives in its 2010-11 biennium budget allocations. However, the indicator was not included in the commission’s 2012-13 biennium budget recommendations to the legislature. The state considers successful transfer a strategic priority for its higher education system and is working support this element through a variety of policy avenues.*
- **Workforce Development:** Workforce training programs that advance the skills of adult workers and job placement after program completion are frequent strategic priorities for higher education. They are also difficult to measure, though several states have successfully incorporated these indicators into their formulas. *If these indicators remain a strategic priority for Indiana, then understanding how other states have set measures could help the state strengthen its policy in future years.*

TRACK SUCCESS

A lack of evidence that performance funding is effective in increasing student success is often pointed to as a reason to not adopt the policy. A common response to this is that enrollment-based funding is a form of performance-based funding, rewarding institutions for providing access and enrolling more students. This has been a very effective incentive, as institutions have consistently increased access and enrollment. Further, while more recent versions of outcomes-based performance formulas have not been in place long enough to produce evidence of impact, states such as Pennsylvania, Ohio and Florida have documented evidence of changes in institutional leadership, campus priorities and evidence of results toward increasing student success and completion. Tracking success, sharing campus results and promoting best practices across institutions should be encouraged. As with any other policy, consistent and on-going evaluation is important to ensure metrics and measures are refined to promote intended outcomes.

STATE SUMMARY



Indiana

Sector

All

Metrics

Successfully completed credit hours; degrees awarded; on-time graduation; increase in degrees completed by low-income students; research incentive for four-year institutions

Percentage

5 percent

Mission Differentiation

Research Incentive

Base or Bonus

Base

Notes

Only applies to resident students



Washington

Year

2009-10

Sector

2-year only

Metrics

Student Success Points: Building toward college-level skills (basic skills gains, passing pre-college writing or math) ; First-year college retention (earning 15 or 30 college credits); completing college-level math (passing necessary college math courses); completion (earning a certificate, two-year degree or apprenticeship)

Percentage

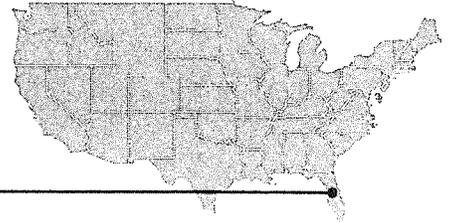
Less than 5 percent

Mission Differentiation

N/A

Base or Bonus

Base



Florida

Year

1994 (still in place but not applied in past two budget cycles)

Sector

2-year only

Metrics

Time to Degree; Successful Completion of College Preparatory Program; Completions of Programs in Targeted Critical Needs (Nursing, Teacher Preparation); Completers; Job Placement; Transfers

Percentage

Less than 5 percent

Mission Defferentiation

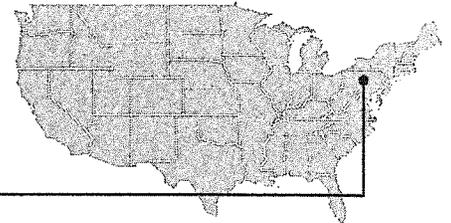
N/A

Base or Bonus

Bonus in first year; transitioned to base allocation

Notes

All



Pennsylvania

Year

2002; revisions effective 2012-13

Sector

4-year only

Metrics

Student success: Degrees conferred and closing achievement gaps; Access: Student enrollment and faculty diversity; Stewardship: Private support and use of resources.

Percentage

8 percent of state allocation

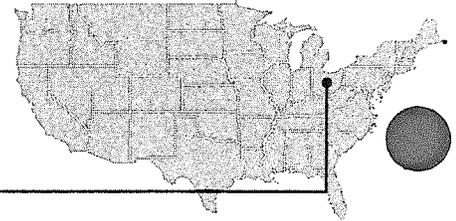
Mission Defferentiation

Yes: Institutions get to choose five metrics based on their institutional mission and strategic goals (within guidelines and approved by Chancellor)

Base or Bonus

Base

STATE SUMMARY



Ohio

Year

Several iterations; 2009

Sector

All

Metrics

University main campuses: Course and degree completions weighted by cost of program. At-risk students and certain STEM fields have higher weight. Maintains funding for graduate and medical education (distributed through performance-based indicators).

University regional campuses: Primarily course completions with shift to include degree completions, both weighted by cost of program. At-risk students and certain STEM fields have higher weight. Small portion reserved for campus contributions to the state's Strategic Plan.

Community Colleges: Primarily enrollment based. Small (but increasing) portion through student success points (successful completion of developmental coursework; accumulation of 15 and 30 credit hours; degree completion; transfer with at least 15 credit hours)

Percentage

Main campuses: 100% (FY 2011, 68% course completion; 10% percent degree completion which increases in proportion each year; 15% campus contribution to state strategic plan (graduate and medical school); Regional campuses: 100% (FY 2011, 90% course completions; 9% percent campus/mission contributions to state strategic plan); Community Colleges: 5% increasing annually.

Mission Defferentiation

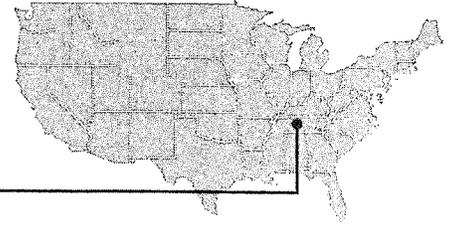
Yes; Sector specific formulas

Base or Bonus

Base

Notes

Hold-harmless phase in period; campuses do not lose more than a certain percentage of prior year's funding. Increases each year. Formulas are run and unadjusted outcomes are shared with all institutions.



Tennessee

Year

1979 (performance bonus incentive); 2009 (outcomes based formula)

Sector

All

Metrics

Four-year schools: student progress metrics (accumulation of 24, 48 and 72 hours); student completion metrics (bachelor and associate degrees; doctoral and law degrees; masters and ed specialist degrees; six-year graduation rate; degrees per 100 FTE; transfers out with at least 12 credits); institutional efficiency and functions (research and service expenditures). Includes an at-risk premium. Two-year schools: student progress metrics (accumulation of 12, 24 and 36 hours; remedial and developmental success; student completion metrics (associate degrees; certificates granted; awards per 100 FTE; transfers out with at least 12 credits); institutional efficiency and functions metrics (work force training; job placements; dual enrollment students)

Percentage

100 percent with 4-year phase-in factor

Mission Defferentiation

Yes; different metrics for four-year and two-year schools. Plus, specific weights are applied to each outcome metric based on Carnegie Classification of institution.

Base or Bonus

Base

Notes

Phase in factor applied over first four years of model. Phase in accounts for difference between institution's enrollment-based allocation and institution's outcomes-based allocation. Factor drifts to 1.0 where it will have no impact on calculation

A Detailed Look at Other State Models, Past and Present

In order to inform Indiana's deliberation on how to best advance its performance funding model, more detailed analysis of several state models is provided below. This analysis is not exhaustive of the state's that have performance funding models in place, but is intended to provide analysis to a variety of approaches states have adopted.

- Some of these states focus only on one sector – Florida, Washington (community colleges) and Pennsylvania (four-year institutions).
- Florida and Washington are examples of “base-plus” models that allocate bonus money to institutions for performance.
- Ohio, Pennsylvania and Tennessee are more refined models; each having a long history of performance funding and using advancements in data systems, state priority for increased degree production and lessons from prior years to refine their formulas.
 - *Pennsylvania* is an example of a model that embeds performance indicators into institutions' base allocations but remains primarily enrollment driven.
 - *Ohio and Tennessee*, offer insight into the next phase performance funding: eliminating enrollment incentive and driving 100 percent of base allocations through an outcomes based formula.

Early Performance Funding Models

Florida²³

Overview:

Florida has enacted two performance formulas for higher education. The first was passed in 1994 and is still in effect today for community colleges. This program, called performance-based budgeting (PB2) allocated additional funds based on performance on defined indicators. The law originally included four-year institutions, but the state never implemented these requirements due to strong opposition from institutional leaders and a lack of agreement on appropriate measures. Additional legislation in 1997 established a second performance-based funding program, the Workforce Development Education Fund, focused on improving graduation and job-placement rates at community colleges and vocational centers. It has not been funded since 2002.

Indicators²⁴: Under PB2, community colleges initially were evaluated based on only a few performance indicators:

- number of students who earned associate degrees or program certificates;
- number of those students who were disabled, economically disadvantaged, learning English or who were placed in jobs in targeted fields; and
- number of graduates with an A.A. degree who finished with fewer than 72 attempted credit hours.

The state's performance measures have evolved over time to include enrollment and graduation

²³ Dougherty, 2011

²⁴ Florida Office of Program Policy Analysis and Government Accountability, *Review of the Community College System's Performance-Based Program Budgeting Measures and Incentive Fund*. Report No. 97-49, (1998), <http://www.oppaga.state.fl.us/Summary.aspx?reportNum=97-49>

rates; transfers by students with A.A. degrees to state universities; placement rates; and the need for remedial instruction.

Amount/Percent of Overall Funding:

For PB2, lawmakers have committed an average of \$12 million annually, equivalent to about 1 percent of total state appropriations. During the years the Workforce Development Education Fund was in place, 15 percent of a state's allocation was set aside and distributed based on performance. When combined, the state's two performance funding programs accounted for approximately 6.5 percent of the budget for community colleges.

Evidence of Success:

A study conducted by Florida's Office of Program Policy Analysis and Government Accountability found that the Workforce Development Education Fund, though short-lived, motivated school leaders to review, upgrade and delete old programs, to introduce new programs and to place more emphasis on student placement and success. There is also evidence of increased performance for community colleges since performance programs have been enacted. In 2007, community colleges awarded 43 percent more degrees and certificates than it did in 1996, even as enrollments grew by only 18 percent.²⁵

Washington²⁶

Overview:

In 2006, the Washington State Board for Community and Technical Colleges (SBCTC) adopted the Student Achievement Initiative program to allocate a portion of its budget to its 34 community and technical colleges based on student progress.

Consulting with Columbia University's Teachers College Community College Research Center, a task force that included state board members, trustees, college presidents, administrators and faculty developed a system to reward colleges when students reach various "achievement points" in their academic careers. It is a system based on research identifying key achievement hurdles that, once cleared, increase the likelihood that a student will graduate or complete a program.

Indicators:

Colleges earn points on the following indicators:

- building toward college-level skills (basic skills gains, passing pre-college writing or math);
- first-year college retention (earning 15 or 30 college credits);
- completing college-level math (passing necessary college math courses); and
- completion (earning a certificate, two-year degree or apprenticeship).

²⁵ Florida Office of Program Policy Analysis and Government Accountability. *Workforce Development Education Program*. Florida Department of Education. Report No. 01-56 (2001). <http://www.oppaga.state.fl.us/Summary.aspx?reportNum=01-56>

²⁶ Sources: Washington State Board for Community and Technical Colleges. *Student Achievement Initiative* (2010). http://www.sbctc.edu/college/education/student_achieve_summary_nov2010.pdf

Funding Mechanism:

Each college is evaluated annually based on its own achievement growth. Colleges receive funding for increases in total achievement points attained by students in a given year compared to the baseline year of 2006-07.

The funding mechanism does not affect the formula by which the bulk of the system's budget is allocated to colleges. Student Achievement Initiative funding is provided as a financial reward in addition to the college's base budget. This mechanism is the primary way Washington's program and Ohio's formula for community colleges differ. Both utilize the same or very similar indicators. Ohio reallocates from community college's base budget, working up to 20 percent of total institutional allocations. Washington uses a "base-plus" model that provides extra dollars to colleges for performance.

Percent/Amount Allocated:

The first two years of the Student Achievement Initiative provided for \$31 and \$40 per point, respectively. The overall amount allocated through the program is \$1.8 million per year. This represents less than 1 percent of institutions' overall budget.

Refined Performance Funding Models

Pennsylvania²⁷

Overview:

The Pennsylvania System of Higher Education (PASSHE) first established its Performance Funding Program in October of 2002, allocating a portion of the appropriation for universities based on performance on measures of degrees awarded, retention and graduation rates, faculty productivity, employee diversity and instructional cost per student. The program has realized significant results with increases in retention rates, graduation rates, and access, particularly for underrepresented students.

Despite these positive results, Chancellor John Cavanaugh wanted to improve the system to be more sensitive to institution specific missions and goals and to be better aligned with the system's new strategic goals. In January, PASSHE revised the program around specific principles to ensure the program was clear, understandable and replicable; to put the primary focus on results; to make the data transparent and visible; and to limit competition and promote collaboration.

Metrics

The revised performance metrics fall into three categories: access, student success, and stewardship of resources (see Appendix for full list of measures).

Each PASSHE university will be measured on 10 performance indicators:

- Five will be the same for all PASSHE institutions:
 - Two in student success: Degrees conferred and closing the achievement gap.
 - Two in access: Closing the access gap and faculty diversity.

²⁷ Source: The information in this section was compiled from resources provided by the Pennsylvania State System of Higher Education (PASSHE)

- One in stewardship: Private support.
- Five will be selected by individual universities:
 - One must be in stewardship.
 - Two can be developed by the university, with approval from the chancellor for inclusion in the performance funding program.

Performance Measurement and Distribution:

For all indicators, university performance will be measured by progress toward institution-specific goals and against external comparisons or expectations. Institutional goals, established in concert with the Office of the Chancellor, will take into consideration each university's historical trends, overall performance levels, and reasonable expectations for improvement.

University performance will be measured either as meeting or not meeting each performance target. This new method differs from the previous model in that institutions will no longer get extra points for exceeding performance measures. This change was made to limit what was phrased as the "winner-take-all Powerball effect" – the fact that some institutions could meet their goals but not get rewarded because other institutions received a bonus for exceeding their targets.

Distribution of funds will be based on the total number of points each institution receives:

- Each indicator is worth a point – maximum of 10 points.
- All points are totaled for each university, weighted by the university's base-appropriations funding.
- Weighted points are divided into the total performance funding pool to create a dollar-per-point value that is multiplied by the number of points the university earned to establish the allocation.

Amount/Percent of Overall Funding:

Previously PASSHE used two fund sources (Education and General, and Program Initiatives Line Item) to allocate funds appropriated to the system based on performance. In order to address the dramatically declining state appropriations, the 2011 revision sets the performance pool at 2.4 percent of PASSHE's total Education and General appropriation. This is equivalent to 8 percent of the Fiscal Year 2011 state appropriation for institutions. Fixing the performance funding pool to the total Education and General budget provides greater predictability for institutions and ensures that the amount of funds for performance remains meaningful.

Evidence of Success:

Pennsylvania has realized significant improvements since enactment of performance funding in 2002, all while increasing enrollment by nearly 20 percent between 2002 and 2008. These accomplishments include:

- a nearly 10 point increase in overall four-year graduation rates, including increases of 6 and 9 points for African American and Hispanic students, respectively; and
- a jump in second-year persistence rates, especially for Hispanic students, who saw a 15-point persistence improvement.

Overview:

Ohio has a long history of performance based funding programs. In the mid-1980's Ohio allocated additional state dollars through five different "Selective Excellence" programs. Only one of these programs persists today, the Research Challenge, which provides a partial state match for university's success in securing third-party grants. The 1990s saw the adoption of another group of performance funding programs, part of the broader Challenge Program. The Challenge Programs were initiated in large part by university leaders who, concerned with losing additional state support resulting from relatively flat funding and surging enrollments at community colleges, saw funding based on performance outcomes as a way to secure some additional state funds. The five new programs were mission-driven and performance based, applying different goals and expectations across the two-year and four-year sectors. Two-year campuses were held to the access challenge and the jobs challenge, receiving funds for increasing enrollments, lowering student fees, and for non-credit related training. Four-year campuses were rewarded for timely completion of in-state undergraduate completion, with a premium for completions by at-risk students. The Research Challenge also continued for these universities. Challenge funding of the 1990s grew to an amount equal to 8 to 10 percent of the base funding for institutions.

In 2009, Ohio again advanced its performance funding efforts. With a statewide goal recognizing the need to increase the number of citizens with a college degree, Ohio's strategic plan for higher education recommended transformation of the base funding formula from enrollment-driven to completion-based. After consultation with the state's public higher education institutions, the chancellor put forward recommendations for the fiscal year 2010-11 budget bill. The recommendations split the traditional single enrollment-based subsidy formula into three separate formulas, based on the mission of each sector of Ohio's higher education system: community colleges, regional universities and university main campuses. Main and regional campuses eliminate enrollment FTE as the basis of funds and shift to course and degree completions. The formula for community colleges maintains enrollment as the primary driver of state allocations. These new funding formulas were formally adopted by the legislature in its 2009 session and renewed in 2011, with a few tweaks.

Formula Descriptions**University Main Campuses**

- **Course completions:** Course completions currently make up the majority of funds distributed to university main campuses. In 2011, approximately 68 percent of total main campus funding was based on course completions. This proportion will adjust overtime as the amount allocated on the basis of degree completions increases.
 - "At-risk" adjustment²⁹: Weighted based on differential in completion rates by subject area and level.
- **Degree completions:** Approximately 5 percent of funds were distributed in FY 2010 on the basis of degree completions. This portion was increased to 10 percent in FY 2011 and will

²⁸ This information was compiled from information provided by the Ohio Board of Regents and Richard Petrick, *The Ohio Experience With Outcomes-Based Funding*, American Enterprise Institute for Public Policy Research (2011). <http://www.aei.org/docLib/The%20Ohio%20Experience%20with%20Outcomes-Based%20Funding%20by%20Richard%20Petrick.pdf>

²⁹ Definition of "at-risk" for FY 2010-11 biennium was any student eligible for state need-based aid. The legislature adopted a more refined definition in the 2012-13 operating budget that will include indicators of wealth, age, academic preparation, and race/ethnicity.

continue to increase over time (15 percent of total main campus funding in 2012 and 20 percent in 2013).

- **Cost-adjustment:** The number of degree completions will be multiplied by the cost-per-degree for each subject area and level.
- **“At-risk” adjustment:** Weighted based on differential in completion rates by subject area and level.
- **Funding for graduate/medical education:** The formula maintains funding for graduate and medical education but distributes these funds among campuses through more dynamic and performance-based indicators, including degrees awarded; grant revenues, and indicators of quality. This portion accounts for approximately 15 percent to 20 percent of total main campus funding.

University Regional Campuses

- **Course completions:** Funding for the state’s regional campuses will initially be based solely on course completions. Degree completions are expected to be added in over time. Approximately 90 percent of FY 2011 allocations were distributed to regional campuses based on course completions.
 - **“At-risk” adjustment:** Weighted based on differential in completion rates by subject area and level.
- **Campus/mission-specific contributions:** A small portion, approximately 9 percent in Fiscal Year 2011, will be distributed based on campus/mission-specific contributions to the state Strategic Plan.

Community Colleges

- **Enrollment:** A cost-based enrollment formula will continue to drive the majority of allocations to community colleges. In Fiscal Year 2011, 95 percent of the total community college allocations were driven by enrollment.
- **Success points:** A small but increasing portion of community college allocations will be distributed based on success point achievement. These indicators, modeled after Washington’s Momentum Points, measure key benchmarks of student progress and success.

Amount/Percent of Overall Funding:

As noted above, nearly all of the funds allocated to university main and regional campuses are distributed based on course and degree completions while community colleges will continue to be primarily funded based on enrollments. The amounts earned by each campus will be proportionally adjusted so as to distribute the amount of dollars available and proportionally distributed based on each campuses share of course/degree completion weighted costs.

Each year, the formulas are run and the unadjusted outcomes are shared providing each campus with a peer-based comparison of performance. The state, however, has instituted a “stop-loss” in the first years of the program to allow campuses time to adjust to the new performance metrics and guard against any one campus losing large amounts of state allocations. The stop loss was 1 percent in Fiscal Year 2010 and 2 percent in Fiscal Year 2011. The stop loss is expected to increase each year, with expectations of phasing it out.

Evidence of Success:

While it is still too early to measure effects of the more recent performance formulas, the Ohio Board of Regents reviewed the impact of the 1990's Challenge programs. The report confirmed earlier anecdotal evidence that the programs influenced campus behaviors and priorities.

The Success Challenge, in particular was found to have:

- Reduced median time to degree for in-state bachelor's degree graduates from 4.7 years in 1999 to 4.3 years in Fiscal Year 2003.
- Increased the percent of in-state bachelor's degree graduates earning their degree in four years or less from 34 percent in 1999 to 43 percent in 2006.
- Increased the number of at-risk students who received bachelor's degrees by 13 percent and decreased average time to degree for at-risk students.

Tennessee³⁰

Overview:

Tennessee is considered one of the earliest states to adopt a performance-based funding system. The state's 1979 model maintained the enrollment-driven funding formula as the primary method of allocation for institutions, but it added a Performance Funding Program with incentives to encourage colleges and universities to measure student learning and institutional effectiveness. Institutions have been able to earn up to an additional 5.45 percent of operations budgets based on performance on a number of common measures. These measures include measures of student retention and graduation, student program review and accreditation results, student scores on tests of general education and major field tests, licensure rates, and more. Until the development of the 2010 outcomes-based formula, performance funding also included measures of student retention and graduation. This program continues today, with the noted changes, and is considered a high quality assurance program.

In 2010, Tennessee passed the Complete College Tennessee Act, which altered the primary funding of institutions from an enrollment-based formula to one based on outcomes. This model, similar to Ohio, includes two basic formulas, one for community colleges and one for four-year colleges and universities. The separate formulas are one way the system accounts for mission differences. The formula also weighs institution mission (based on Carnegie Classification) and provides an incentive for the success of low-income and non-traditional students.

Metrics

While the specific metrics or outcomes used are different for universities and community colleges, they are grounded in the state's priorities of student progress and completion, institutional efficiency and other institutional functions, such as research.

³⁰ This information was compiled from several sources on the Tennessee Higher Education Commission's website. See: [Presentation on Outcomes Model; Formula Technical Details - Presentation to TBR Presidents on May 17](#); and [Performance Funding 2010-15 Approved Standards \(\[http://www.tn.gov/moa/documents/perf_fund_task_force/THEC%20PF%202010-15%20Guidebook.pdf\]\(http://www.tn.gov/moa/documents/perf_fund_task_force/THEC%20PF%202010-15%20Guidebook.pdf\)\)](#)

Four-year University Outcome Metrics

| Student Progress Metrics | Student Completion Metrics | Inst. Efficiency & Functions Metrics |
|---------------------------------------|--|---|
| <i>Students accumulating 24 hours</i> | <i>Bachelor and Associate degrees</i> | <i>Degrees per 100 FTE</i> |
| Students accumulating 48 hours | Doctoral and Law degrees | Research and service expenditures |
| Students accumulating 72 hours | Masters and Ed Specialist degrees | |
| | Six-year graduation rate | |
| | Transfers out with at least 12 credits | |

Community College Outcome Metrics

| Student Progress Metrics | Student Completion Metrics | Inst. Efficiency & Functions Metrics |
|---------------------------------------|--|---|
| <i>Students accumulating 12 hours</i> | <i>Associates granted</i> | <i>Work force training</i> |
| Students accumulating 24 hours | Certificates granted | Job placements |
| Students accumulating 36 hours | Transfers out with at least 12 credits | Awards per 100 FTE |
| Remedial and Developmental Success | | Dual Enrollment Students |
| | Transfers out with at least 12 credits | |

Institution Weights and Formula Allocations

Tennessee's formula for four-year institutions is further refined to account for institution mission by applying weights to the outcome data. The weights reflect the priority of the particular outcome metric to the institution and the institution's Carnegie Classification.

- *At-Risk Premium:* Institutions are also rewarded a premium of 40 percent for student progression and undergraduate degree production data attributable to low-income and/or adult students.
- The community college weighting structure is uniform across institutions.

The outcomes based formula does not have annual targets or benchmarks. The formula allocates dollars to institutions using the following process (See Appendix 4 for a technical example of TN's formula):

- Step 1: Data are collected for each outcome for each institution (using a three year average)
- Step 2: Data are rescaled across variables for comparability
- Step 3: Weights are applied to each outcome
- Step 4: Rescaled data are multiplied by the weights and summed to produce a "weighted outcome"

- Step 5: Weighted outcomes are converted to funding recommendations by multiplying them by salary multipliers, which acknowledge that institutions in different Carnegie Classes have different operating costs and higher salaries - even if their overall outcomes are similar.

Percent/Amount of Funding

Beginning with FY 2011-12, the Tennessee Higher Education Commission's (THEC) funding formula is 100 percent driven by outcomes. While about 60 percent of the previous formula was based on enrollment, the new formula does not include enrollment as a metric. The model will be phased in over the next four years using a phase-in factor that accounts for the difference between an institution's enrollment-based allocation and an institution's outcomes-based allocation. The phase-in factor drifts to 1.0, where it will have no impact on the outcomes-based calculation.

In addition, a smaller part, the performance funding essentially acts as a bonus. Through the performance funding piece, each institution can earn up to an additional 5.45 percent of its outcomes model recommendation.

Evidence of Success:

It is too early to know the impacts of Tennessee's outcomes based model, but the state has made many arguments that the revised formula will have positive impacts on institutional outcomes and is a more sound formula than the previous enrollment-driven one. Specifically:

- The enrollment-driven formula provided for little differentiation between different types of institutions and offered limited acknowledgement of institutional mission and uniqueness.
- The outcomes-based model is linked to productivity and will offer more stability by spreading the financial incentives across more variables.
- Performance-funding "add-ons" have had limited success in leveraging policy change; the primary incentive remained tied to enrollment and other inputs. It is simply good policy to align funding for institutions with policy objectives.

Appendix 1: Indiana Walkthrough (As passed in 2011 legislative session)

1. **Successful Completion of Credit Hours (Non-Dual Credit):**
 - a. Provides for a \$1,099 funding for each Full Time Equivalent (FTE) change from averages over a 6 year period.
 - b. Takes the average FTE for a 4 year period (2007-10) and takes the average FTE for second 4 year period (2009-12) and computes the delta.
 - c. The delta is then multiplied by \$1,099 to determine the funding for this measure
 - d. Applies to all IU and PU regional campuses, USI, VU, ITCCI, ISU. PUWL , IUB and BSU are stable campuses and do not receive this funding

2. **Successful Completion of Credit Hours (Dual Credit):**
 - a. Provides for a \$1,500 funding for each Full Time Equivalent (FTE) change from averages over a 6 year period.
 - b. Takes the average FTE for a 4 year period (2007-10) and takes the average FTE for second 4 year period (2009-12) and computes the delta.
 - c. The delta is then multiplied by \$1,500 to determine the funding for this measure
 - d. Applies to all campuses
 - e. Allows for funding related to Early College initiatives. Funding is the same as the dual credit performance funding but at a rate of \$70/credit hour, or \$2,100 per FTE.

3. **Change in Degree (Baccalaureate and Associate Degree):**
 - a. Provides \$20,000 for Baccalaureate and \$9,100 for Associate Degrees
 - b. Uses conferred Baccalaureate and Associate Degrees from 2003-2004 to 2008-2009 and calculates the delta between 2003-04 and 2005-06 and the delta from 2007-08 and 2008-09.
 - c. The change in the delta between the two deltas is then multiplied by amounts noted in section (a)

4. **On-Time Degree (Baccalaureate and Associate Degree):**
 - a. Provides \$10,000 for Baccalaureate and \$4,550 for Associate Degrees
 - b. Uses the cohort headcount (Resident, first-time, full-time, degree seeking) for the year 2003-04 through 2005-06.
 - c. Determines the degrees conferred for a cohort in 4 years for 2003-04 versus 2005-06 and calculates a percentage for a cohort graduation rate using the headcount from (b)
 - d. Determine the change in percentage from 2003-04 and 2005-06, multiplied by the 2005-06 headcount, and then multiplies by amount noted in (a)

5. Low Income Degree Completion (Baccalaureate and Associate Degree):

- a. Provides \$5,250 for Baccalaureate and \$2,839 for Associate Degrees
- b. Uses only Pell Recipients who are Residents and Unduplicated.
- c. Determines degrees awarded to persons in section (b) from 2005-06 to 2008-09
- d. Calculates the average degrees awarded from 2005-06 to 2006-2007 and 2007-08 to 2008-09.
- e. Determine the difference between the two averages and multiples the delta by section (a)

6. Research Incentive

- a. Uses externally funded research costs from 2008-09 through 2011-12 (estimated)
- b. Externally funded research costs include federal grants, industrial grants, and private foundations.
- c. Uses for 4 year average of externally funded research from 2004-05 to 2007-08) and compares that figure to the 4 year average from section (a).
- d. The delta in section (c) is then multiplied by 50% to determine the research incentive.
- e. Used only by PUWL, IUB, and IUPUI

Appendix 2: Pennsylvania Performance Funding Program: Summary of Measures (Source: PASSHE)

All the universities will be responsible for the five performance indicators in Group I. The universities will select the remaining five performance measures from Groups II and III.

The mandatory and optional indicators for each theme are summarized below.

Student Success

Group I: Two measures

1. Degrees Conferred (1.0)
 - a. Number of associate, baccalaureate, and graduate degrees conferred (.50)
 - b. Baccalaureate degrees awarded per FTE undergraduate enrollment (.50)
2. Closing the Achievement Gaps (1.0)
 - a. Closing the Achievement Gap for Pell Recipients (.50)
 - b. Closing the Achievement Gap for Underrepresented Minority (URM) Students (.50)

Group II: Universities can select from the following:

1. Deep Learning Scale Results—National Survey of Student Engagement (NSSE) (1.0)
2. Senior Survey—National Survey of Student Engagement (NSSE) (1.0)
 - a. Academic challenge (.20)
 - b. Active/collaborative learning (.20)
 - c. Student/faculty interaction (.20)
 - d. Enriching educational experiences (.20)
 - e. Supportive campus environment (.20)
3. Student Persistence (1.0)
 - a. Overall percentage of students returning for a third academic year (.50)
 - b. Overall percentage of students returning for a fourth academic year (.50)
4. Value-Added—Senior CLA, CAAP, or ETS® Proficiency Profile Scores (1.0)
5. STEM Degree Recipients—Percentage of university degree recipients in high need programs such as science, technology, engineering, and mathematics (STEM) or health care (1.0)

Access

Group I: Two measures

1. Closing the Access Gaps (1.0)
 - a. Closing the Gap for Pell Recipients (.50)
 - b. Closing the Gap for Underrepresented Minority Students (URM) (.50)
2. Faculty Diversity (1.0)
 - a. Percent of full-time tenure/tenure-track faculty who are nonmajority persons (.50)
 - a. Percent of full-time tenure/tenure-track faculty who are female (.50)

Group II: Universities can select from the following:

1. Faculty Career Advancement (1.0)³¹
 - a. Percent of Associate Professors who are nonmajority (.25)
 - b. Percent of Associate Professors who are female (.25)
 - c. Percent of Professors who are nonmajority (.25)
 - d. Percent of Professors who are female (.25)
2. Employment (Nonfaculty) Diversity (1.0)
 - a. Percent of Executives who are nonmajority (.25)
 - b. Percent of Executives who are female (.25)
 - c. Percent of Professional staff who are nonmajority (.25)
 - d. Percent of Professional staff who are female (.25)
3. Student Experience with Diversity and Inclusion—Measured by average of the combined scores of seniors on applicable NSSE items (1.0)
4. Student Diversity (1.0)
 - a. Percent of total student enrollment who are federal Pell Grant recipients (.50)
 - b. Percent of total student enrollment who are nonmajority (.50)

Stewardship

Group I: One measure

1. Private Support—Three-year average of total dollars raised (1.0)

Group II: Universities must select at least one from the following:

1. Facilities Investment—Composite measure of annual stewardship, operating effectiveness, and quality of service in the physical plant arena, as measured by the annual Sightlines Return on Physical Assets (ROPA) Study (1.0)
2. Administrative Expenditures as Percent of Cost of Education (1.0)
3. Instructional Productivity—Student credit hours as ratio of total FTE faculty (1.0)
4. Employee Productivity—FTE student/FTE employee (faculty and staff) (1.0)

University-Specific Indicators

Group III:

Universities may create no more than two Group III indicators, which have to be approved by the Chancellor for inclusion in the performance funding program. Proposals should follow the prescribed template for defining the performance indicator including the data source(s). The Accountability and Performance Funding Committee members are available to consult with universities to help develop successful indicators.

To achieve the principles within the three themes, each institution will commit to ten performance indicators for the next five years. The performance measures are organized into three groups. Each university has the opportunity to choose its measures within limitations. All the universities will be responsible for the five performance indicators in Group I. The universities will select the remaining five performance measures from Groups II and III. Each university must select at least one measure from the Stewardship theme in Group II. Otherwise, there are no limits on the number of performance measures selected from any theme. Group III allows the university to propose to the Chancellor a maximum of two unique performance measures not listed in Group II. Any proposed measure should be derived from the university's strategic plan, have an element of risk as well as reward, have an external comparative base, and be capable of being quantified such that it can be determined if the university meets or does not meet the goal.

Appendix 3: Ohio FY 2011 Subsidy Allocations, by Purpose by Sector

| | Community Colleges | Share of Total CC \$ | Regional Campuses | Share of Total RC \$ | University Main Campuses | Share of Total UM \$ | Grand Total | Share of Total |
|-------------------------------|--------------------|----------------------|-------------------|----------------------|--------------------------|----------------------|-------------|----------------|
| Enrollment | \$370.20 | 84.2% | \$0.00 | 0.0% | \$0.00 | 0.0% | \$370.20 | 18.5% |
| Success Points | \$18.60 | 4.2% | \$0.00 | 0.0% | \$0.00 | 0.0% | \$18.60 | 0.9% |
| Course Completions | \$0.00 | 0.0% | \$116.30 | 87.8% | \$964.20 | 67.7% | \$1,080.50 | 54.1% |
| At-Risk Course | \$0.00 | 0.0% | \$4.20 | 3.2% | \$13.10 | 0.9% | \$17.30 | 0.9% |
| Degree Completions | \$0.00 | 0.0% | \$0.00 | 0.0% | \$128.80 | 9.0% | \$128.80 | 6.4% |
| At-Risk Degree | \$0.00 | 0.0% | \$0.00 | 0.0% | \$9.20 | 0.6% | \$9.20 | 0.5% |
| Medical & Doctoral | \$0.00 | 0.0% | \$0.00 | 0.0% | \$306.00 | 21.5% | \$306.00 | 15.3% |
| Tuition Subsidy | \$50.70 | 11.5% | \$12.00 | 9.1% | \$3.70 | 0.3% | \$66.40 | 3.3% |
| Total | \$439.50 | 100.0% | \$132.50 | 100.0% | \$1,425.00 | 100.0% | \$1,997.00 | 100.0% |

Source data: Ohio Board of Regents; re-produced from Rich Petrick, Richard Petrick, The Ohio Experience With Outcomes-Based Funding, American Enterprise Institute for Public Policy Research (2011), <http://www.aei.org/docLib/The%20Ohio%20Experience%20with%20Outcomes-Based%20Funding%20by%20Richard%20Petrick.pdf>

Ohio's Success Point Definitions

1. Number of students who either: i) complete their first remedial course at that institution in a given year; ii) Successfully complete a developmental math course last year, who subsequently enrolled in a college level Math course (at any public college or university) either last year or in the current year; and iii) Successfully complete a developmental English course last year, who subsequently enrolled in college level English course (at any Ohio public college or university) either last year or in the current year
2. Number of students earning their first 15 semester credit hours of college level course work at that institutions by a given year.
3. Number of students earning their first 30 semester credit hours of college level course work at that institution by a given year
4. Number of students who earn at least one associate degree, from that institution, in a given year
5. Number of students who completed at least 15 semester credit hours of college level course work at that institution and subsequently enrolling for the first time at a four year college or university, in Ohio. Initially transfer is measured as enrollment in a USO main or regional campus with intent to expand transfers to include private colleges.

Appendix 4: Tennessee Higher Education Commission – Estimated Changes in 2012-13 Formula Recommendation and Appropriations*

| CHATTANOOGA | | | | | | |
|-------------------------------------|----------------|-----------|--------|-------------|---------|-------------------|
| Outcomes | Estimated Data | Sub-pop X | Scales | Scaled Data | Weights | Weighted Outcomes |
| Students Accumulating 12 hrs | 3,891 | | | 1,946 | | |
| Sub-population Adults (incl. above) | 999 | 40% | 2 | 300 | 6% | 154 |
| Sub-population Pell (incl. above) | 2,106 | 40% | | 421 | | |
| Students Accumulating 24 hrs | 2,408 | | | 1,204 | | |
| Sub-population Adults (incl. above) | 793 | 40% | 2 | 159 | 7% | 114 |
| Sub-population Pell (incl. above) | 1,304 | 40% | | 261 | | |
| Students Accumulating 36 hrs | 1,864 | | | 932 | | |
| Sub-population Adults (incl. above) | 729 | 40% | 2 | 146 | 7% | 89 |
| Sub-population Pell (incl. above) | 991 | 40% | | 198 | | |
| Dual Enrollment | 1,012 | | | 506 | | |
| Associates | 671 | | | 448 | | |
| Sub-population Adults (incl. above) | 397 | 40% | 1.5 | 106 | 5% | 25 |
| Sub-population Pell (incl. above) | 33 | 40% | | 90 | | |
| Certificates | 137 | | | 91 | | |
| Sub-population Adults (incl. above) | 79 | 40% | 1.5 | 21 | 10% | 13 |
| Sub-population Pell (incl. above) | 53 | 40% | | 14 | | |
| Job Placements | 404 | | | 808 | | |
| R & D Success | 2,162 | | | 432 | 20% | 162 |
| Transfers Out with 12 hrs | 461 | | | 230 | 10% | 43 |
| Workforce Training | 70,032 | | | 1,401 | 15% | 35 |
| Awards per 100 FTE | 15 | | | 296 | 10% | 140 |
| | | | | | 5% | 15 |
| | | | | | | 821 |

| Total Weighted Outcomes | \$21 |
|--|--------------|
| X Salary Multiplier | \$33,129 |
| = Outcomes Based Subtotal | \$43,652,865 |
| + M&O & Utilities | \$6,259,804 |
| + Equipment | \$954,109 |
| + Performance Funding | 97% |
| = Estimated Need | \$49,246,378 |
| X Subsidy/Fee Policy | 66.67% |
| - Out of State Tuition | \$313,776 |
| + Performance Funding | \$1,559,473 |
| Quality Assurance Amount | |
| (Quality Assurance Score) | 85.0 |
| + Legislative Initiatives | \$0 |
| Estimated 2012-13 THEEC Recommendation | \$34,074,000 |
| X Percent Funded | 58.4% |
| Estimated 2012-13 Recurring Appropriations | \$19,896,795 |

| UNIVERSITIES | | | | | | |
|-------------------------------------|----------------|-----------|--------|-------------|---------|-------------------|
| Outcomes | Estimated Data | Sub-pop X | Scales | Scaled Data | Weights | Weighted Outcomes |
| Students Accumulating 24 hrs | 1,292 | | | 1,292 | | |
| Sub-population Adults (incl. above) | 371 | 40% | 1 | 149 | 3% | 69 |
| Sub-population Pell (incl. above) | 891 | 40% | | 353 | | |
| Students Accumulating 48 hrs | 1,561 | | | 1,561 | | |
| Sub-population Adults (incl. above) | 429 | 40% | 1 | 171 | 5% | 103 |
| Sub-population Pell (incl. above) | 829 | 40% | | 332 | | |
| Students Accumulating 72 hrs | 1,446 | | | 1,446 | | |
| Sub-population Adults (incl. above) | 505 | 40% | 1 | 202 | 7% | 136 |
| Sub-population Pell (incl. above) | 752 | 40% | | 301 | | |
| Bachelors and Associates | 1,293 | | | 1,293 | | |
| Sub-population Adults (incl. above) | 734 | 40% | 1 | 293 | 25% | 459 |
| Sub-population Pell (incl. above) | 623 | 40% | | 249 | | |
| Masters/Ed Specialist Degrees | 249 | | | 249 | | |
| Doctoral / Law Degrees | 0 | | | 830 | 20% | 166 |
| Research and Service | 3,081,821 | | | 0 | 0% | 0 |
| Transfers Out with 12 hrs | 206 | | | 154 | 10% | 15 |
| Degrees per 100 FTE | 18 | | | 206 | 10% | 21 |
| Six-Year Graduation Rate | 38 | | | 911 | 10% | 91 |
| | | | | 951 | 10% | 95 |
| | | | | | | 1,155 |

| Total Weighted Outcomes | 1,155 |
|--|--------------|
| X Salary Multiplier | \$63,273 |
| = Outcomes Based Subtotal | \$73,107,792 |
| + M&O & Utilities | \$12,503,475 |
| + Equipment | \$1,258,118 |
| X Three-Year Formula Phase In | 94% |
| = Estimated Need | \$81,668,431 |
| X Subsidy/Fee Policy | 55% |
| - Out of State Tuition | \$1,292,553 |
| + Performance Funding | \$2,047,517 |
| Quality Assurance Amount | |
| (Quality Assurance Score) | 86.0 |
| + Legislative Initiatives | \$0 |
| Estimated 2012-13 THEEC Recommendation | \$45,733,000 |
| X Percent Funded | 56.4% |
| Estimated 2012-13 Recurring Appropriations | \$26,704,809 |

Tuition and fees are expected to cover 60.67% of community colleges and 55% of universities. To account for tuition revenue from out-of-state students, the OUT OF STATE TUITION REVENUE is subtracted.

The PERFORMANCE FUNDING: QUALITY ASSURANCE AMOUNT, based on a score calculated to ensure high education while providing additional funding for SPECIAL LEGISLATIVE INITIATIVES, is 3.43% in addition. The RECOMMENDATION may not be fully funded by the legislature, so it is multiplied by the PERCENT FUNDED to reach the ESTIMATED RECURRING APPROPRIATIONS.

Each outcome is weighted. Each institution's specific weighting structure takes into account that institution's mission and priorities.

The TOTAL WEIGHTED OUTCOMES are multiplied by the SALARY MULTIPLIER to arrive at the OUTCOMES BASED SUBTOTAL. Added to this are the M&O & UTILITIES and EQUIPMENT. From 2011-12 through 2013-14, to account for tuition revenue from out-of-state students, the OUT OF STATE TUITION REVENUE will be multiplied by a THREE-YEAR FORMULA PHASE IN factor. The result is the ESTIMATED NEED.

Outcomes are scaled so that their numbers are more readily comparable and so that very large outcomes do not overwhelm smaller outcomes.

Each data point was calculated using a three-year average.

The Adult and Pell-eligible subpopulation figures are already included in their respective overall figures. Some outcomes are even counted in both the Adult and Pell subpopulations. The figures are broken out here only to calculate an additional 40% subpopulation premium for each such student.

*Estimated projections based on outcomes from previous years. The FY 2011-12 Budget and on alterations made on other tabs in this file to outcomes and funding level. Outcome data has been altered on the Outcomes tab in a positive direction will appear blue, while outcome data altered in a negative direction will appear red. For the purposes of this demonstration, the FUND FINANCING POSITION has been completely phased out.

STATE SUMMARY

| State | Sector | Metrics | Percent | Mission Differentiation | Base or Bonus | Notes |
|--------------|-------------|--|--|---|--|---|
| Indiana | All | Successfully completed credit hours; degrees awarded; on-time graduations; increase in degrees completed by low-income students; research incentive for four-year institutions | 5 percent | Research Incentive | Base | Only applies to resident students |
| Florida | 2-year only | Time to Degree; Successful Completion of College Preparatory Program; Completions of Programs in Targeted Critical Needs (Nursing, Teacher Preparation); Completers; Job Placement; Transfers | Less than 5 percent | N/A | Bonus in first year; transitioned to base allocation | |
| Washington | 2-year only | Student Success Points: Building toward college-level skills (basic skills gains, passing pre-college writing or math); First-year college retention (earning 15 or 20 college credits); completing college-level math (passing necessary college math courses); completion (earning a certificate, two-year degree or apprenticeship) | Less than 5 percent | N/A | Bonus | |
| Pennsylvania | 4-year only | Student success; Degrees conferred and closing achievement gaps; Access; Student enrollment and faculty diversity; Stewardship; Private support and use of resources. | 8 percent of state allocation | Yes: Institutions get to choose five metrics based on their institutions' mission and strategic goals (within guidelines and approved by Chancellor) | Base | |
| Ohio | All | University main campuses; Course and degree completions weighted by cost of program. At-risk students and certain STEM fields have higher weight. Maintains funding for graduate and medical education (distributed through performance-based indicators). University regional campuses; Primarily course completions with shift to include degree completions, both weighted by cost of program. At-risk students and certain STEM fields have higher weight. Small portion reserved for campus contributions to the state's Strategic Plan. Community Colleges; Primarily enrollment based. Small (but increasing) portion through student success points (successful completion of developmental coursework; accumulation of 15 and 30 credit hours; degree completion; transfer with at least 15 credit hours) | Main campuses: 100% (FY 2011), 68% course completion which increases in proportion each year; 15% campus contribution to state strategic plan (graduate and medical school); Regional campuses: 100% (FY 2011), 90% course completion; 9% percent campus/mission contributions to state strategic plan; Community Colleges: 5% increasing annually. | Yes: Sector specific formulas | Base | Hold-harmless phase in period; campuses do not lose more than a certain percentage of prior year's funding. Increases each year. Formulas are run and unadjusted outcomes are shared with all institutions. |
| Tennessee | All | Four-year schools; student progress metrics (accumulation of 24, 48 and 72 hours); student completion metrics (bachelor and associate degrees, doctoral and law degrees; masters and ed specialist degrees six-year graduation rate; degrees per 100 FTE; transfers out with at least 12 credits; institutional efficiency and functions (research and service expenditures). Includes an at-risk premium. Two-year schools; student progress metrics (accumulation of 12, 24 and 36 hours; remedial and developmental success; student completion metrics (associate degrees; certificates granted; awards per 100 FTE; transfers out with at least 12 credits); institutional efficiency and functions; metric (work force training; job placements; dual enrollment students) | 100 percent with 4-year phase-in factor | Yes; different metrics for four-year and two-year schools. Plus, specific weights are applied to each outcome metric based on Carnegie Classification of institution. | Base | Phase in factor applied over first four years of model. Phase in accounts for difference between institution's enrollment-based allocation and institution's outcome-based allocation. Factor drifts to 1.0 where it will have no impact on calculation |