

**RESPONSE TO ACT 899 OF THE 2010 REGULAR SESSION  
OF THE LOUISIANA LEGISLATURE**

**LOUISIANA BOARD OF REGENTS**

**MARCH 2011**

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## **Annual Report on the Postsecondary Funding Formula**

### **Constitutional Authority**

The Board of Regents is required by the Louisiana Constitution (Article VII, Section 5 [D][4]) to develop a funding formula as a component of the Master Plan for Public Postsecondary Education:

*“At a minimum, the plan shall include a formula for equitable distribution of funds to the institutions of postsecondary education.”*

During the regular legislative session of 2010, Senator Lydia Jackson passed Act 899 that stated the following:

*Beginning with Fiscal Year 2011-12, such formula for the ensuing year shall be annually reported to the Senate Committee on Education, the Senate Committee on Finance, the House Committee on Education, and the House Committee on Appropriations, not later than March fifteenth of each year.*

### **Public Policy**

The Louisiana Constitution charges the Board of Regents with the responsibility for developing a mechanism for funding requests and distribution to Louisiana’s public postsecondary education institutions. The formula has been designed to also reflect a philosophy of what is important in education along with financial support for its educational institutions. Through each iteration, the formula has been refined to encourage and respond to certain performances within those entities funded through it.

The annual funding request, backed by the formula, is designed to provide adequate funding support to meet the financial and educational needs of the campuses, if funded. The *formula* factors or elements are used together to produce the funding request. Traditionally, the only factor clearly rewarded in the formula was enrollment, which heavily impacted the amount of funding designated for a campus. But because campuses, systems, and Regents collectively understand that their obligations to meet the educational needs of students, their families and the state extend beyond merely *enrolling students* to include factors like progression, completion of academic or technical credentials, and even the types of education completed, the formula has been revised to require *performance* in fulfilling an institution’s role as a postsecondary education entity in addition to recognizing *costs*. The formula is designed to fund education not simply enrollment.

Louisiana's population has one of the lowest educational attainments of any state in the country, ranked 48<sup>th</sup> in the percentage of the adult population with an associate degree or higher in 2009. Research has demonstrated the relationship between the lack of education and a high incidence of unemployment, crime, incarceration, illness, and other social and economic issues which both drain a state's resources and lower the overall quality of life of its citizens. It is through higher educational attainment that Louisiana can reverse these troubling trends.

The state will not achieve significant gains in the educational attainment of its citizenry without targeting funding to performance based policies designed to increase education attainment in this state. Rather than being merely a mechanism for campus funding based on enrollment, the formula has evolved to be an applied philosophy of accountability and performance, to ensure that the funds are spent to educate our students and to move the state of Louisiana forward.

### **New Formula Approach**

The recommended changes to the FY 11-12 formula funding model are being made to improve the formula. The proposed changes provide separate formula calculations for the two year and four year institutions, simplify the formula, and align the performance metrics to the GRAD Act, the State's public policy agenda. It also makes the cost model more closely track current best practices for cost funding recommendations. Transparency and simplification for the performance metrics will be achieved by aligning the performance component of the funding formula with the GRAD Act student success metrics. Louisiana's postsecondary institutions must be able to predict future funding based on performance expectations and adjust their operations appropriately. Consistency in the performance measures and the application of the formula is critical to the overall success of this fiscal policy driver.

### **Historical Perspective**

Act 1465 of 1997 set performance-based budgeting requirements for all state agencies and allowed funding to be linked to performance. In response, the Board of Regents required all institutions to report on four core objectives and set goals for those objectives: total enrollment, minority enrollment, retention (campus and statewide) and graduation rates. The Board of Regents' Master Plan for Public Higher Education included as its general goals to increase opportunities for student access and success, ensure quality and accountability, and enhance services to communities and the state. From this broad base, the core objectives and goals were expanded to include increasing total and minority enrollment, retention rates, graduation rates, adult literacy, student satisfaction, accredited programs and research

outcomes, plus decreasing the need for developmental courses at baccalaureate institutions. Explicit contributing goals for each system and/or institution were not set.

As a result, the Master Plan established a funding formula with three main components: a core funding component, a quality improvement component and a performance incentive component. A few limited special programs were funded outside of the formula. Unfortunately, only the core component ever received funding. The core component was designed to provide equitable funding for institutions, to ensure that those institutions with similar missions and enrollments were funded similarly. A simplified calculation, it used average regional peer funding levels per full-time equivalency (FTE) to set a funding target for each institution in Louisiana. The quality improvement component was designed to direct new resources to institutions for programs of regional and national eminence, particularly those in the area of workforce and economic development. The performance incentive component was to tie new funding to high performance and institutional improvement. Such activities as controlling student charges, increasing student achievement, program accreditation, faculty salaries and regional relevance were to be rewarded. While data were not nuanced enough to account for the wide variation of factors that affect the costs to educate students, this formula attempted to narrow some of the category ranges by using appropriate Southern Regional Education Board (SREB) peer quartile placement instead of full SREB category comparisons.

In 2005, the Board of Regents started work on a revision of the Master Plan for Public Higher Education. The staff of the Board of Regents, in conjunction with the four postsecondary education management systems and a Master Plan Formula Workgroup, studied possible revisions to this formula over the time period 2005 to 2008. A master list of participants numbering over fifty (50) individuals representing entities like: Board of Regents (BOR), postsecondary systems, campus presidents and chief financial officers (CFOs), Senate Finance Committee, Legislative Fiscal Office, Governor's office, Baton Rouge Area Chamber (BRAC), Public Affairs Research Council (PAR), Louisiana Association of Business and Industry (LABI), and several nationally respected consultants attended many meetings to discuss statewide strategy and the impacts that the model would have on the institutions. This work was delayed early on because of the effects of Hurricanes Katrina and Rita. Most of the work of the Master Plan Formula Workgroup was completed in 2007.

The subsequent Master Plan Formula Workgroup recommendation was that the formula be revised to accomplish the following statewide policy objectives:

- Focus existing and new dollars on performance and results;

- Make the formula more sensitive to missions of institutions, recognizing different program costs in different settings; and
- Make cost metric values in the formula analysis more precise and current.

### **Current Formula**

For many years, much time and effort from many individuals went into the development of the formula models. They evolved from easily understood, simplistic approaches to more complex models.

Fiscal year 2008-09 was the first of a three-year phase in for the formula developed from the work of the Master Plan Formula Workgroup. In June 2010, revisions were made to that formula and approved by the Board of Regents. While including elements of the previous formula, the current formula is more focused on the “rewarding” of performance. The revisions shifted a large portion (25%) of the institutions’ state funding to a performance model with allocations driven by many newly developed metrics. The percentage that is performance-based is one of the largest in the nation and while a phase in was envisioned in the design, no phase in was applied in implementation. The cost component of the funding formula, which was built on solid policy driven calculations based on best practices used in other states, was reduced to 75% of the total funding. This formula was developed to give Louisiana a performance-based model that focuses on results, increasing numbers of degrees and certificates awarded, increasing research activity, and addressing workforce and economic development needs.

As with the previous formula, the current model fulfills several of the goals of best practices for funding formulas. Consistent funding and persistent use of the formula would allow institutions to predict their revenue streams based on campus performance improvements and budget with a greater level of certainty.

Louisiana’s current performance-based formula distribution (FY09-10) was developed to incentivize student success, transfer and articulation, workforce competitiveness and economic development. To measure student success, the formula uses the following metrics: completers at all levels; completers aged twenty-five (25) and older; completers from underserved racial-ethnic groups; and completers who are economically disadvantaged. Both sending and receiving institutions are also rewarded for student transfer with associate degrees or those with thirty (30) hours or more. Completers in science, technology, engineering, mathematics (STEM), and medical fields as well as matching funds for externally sponsored research are the metrics used to incent workforce competitiveness and economic

development. Last year, these metrics were applied to provide performance incentives for each institution based on their individual roles, scope, and missions.

As with the previous formula, the current model fulfills several of the goals of best practices for funding formulas. However, consistent funding and persistent use of the formula would allow institutions to predict their revenue streams based on campus performance improvements and budget with a greater level of certainty.

### **Proposed Formula Changes (FY 2011-12)**

The Louisiana Granting Resources and Autonomy for Diplomas Act (GRAD Act) is major postsecondary public agenda setting legislation that will shape the funding formula. The GRAD Act (ACT 741) was approved by the legislature in the regular session of 2010. The law directs alignment of the funding formula with the performance metrics that are included within the GRAD Act. The following changes to the funding formula will be presented to the Board of Regents for consideration at their March 23rd, 2011 meeting.

#### **1. Set two-year and four-year institutions equidistant from their respective peer groups.**

The proposed performance formula for FY 11-12 retains the two major components of the formula; the cost component and the performance component with modifications to each. It also separates the formula into two year and four year distribution models. As a first step to the annual budget request, an analysis will be conducted to determine the distance of the two-year institutions and the four-year institutions from their respective SREB peers, taking into consideration the total amount of state general funds for formula institutions. This process will ensure that each group of institutions is equidistant from their SREB peer groups.

#### **2. Performance funds will be aligned with GRAD Act student success targets.**

All performance funds will be tied directly to each campus' GRAD Act targeted student success metrics. Coupled with 10% tuition increase authority, each campus will have roughly 25% of their annual total operation budget allocated based on reaching their GRAD Act student success targets. This allows each campus to compete directly against itself based on its established performance goals. An added benefit is that use of the GRAD Act provides consistent measures of performance based on campus six year agreements.

#### **3. End of Course Counts will be used to drive cost calculations.**

The cost portion of the formula funding model will be run for the two-year and four-year institutions separately. The only change to the cost portion of the formula is to calculate costs based on end of course student credit hour counts rather than the 14<sup>th</sup> class day counts, thus rewarding course completers not enrollment through the formula. The only exception is that the Louisiana Technical College student credit hour counts will continue to be the 14<sup>th</sup> class day counts. This initial exception is being allowed to recognize the unique enrollment and persistence patterns of technical college students. In general, end of course counts are being used for the cost funding recommendation because it provides a stronger measure of campus productivity.

**4. Hold harmless metric to establish maximum annual funding loss.**

Formula funding recommendations will be used to allocate funds to the respective management boards per constitutional requirements after the legislative process is complete and the total appropriations to postsecondary education are known. To provide equity in the distribution of the cost-based funding component of the formula, a hold harmless metric will be established to mitigate budget cuts for institutions, if needed, to establish a maximum loss for impacted institutions in a single fiscal year.

The recommended changes to the formula funding model are being made to both simplify the performance metrics and make the cost model more closely track current best practices for cost funding recommendations. In order to assess the impact of the postsecondary formula funding model on driving public policy objectives, the formula methodology must be set and used for the next three to five years without major changes. Louisiana's postsecondary institutions must be able to predict future funding based on performance expectations and adjust their operations appropriately. Consistency in the performance measures and the application of the formula is critical to the overall success of this fiscal policy driver.



## Attachment A

### *Louisiana Board of Regents FY 2011- 2012 Funding Distribution Using Cost Formula Redistributions*

## Louisiana Board of Regents FY 2011-2012 Funding Distribution Using Cost Formula Redistributions

15% of available funds distributed for GRAD Act performance metrics and 85% of available funds distributed on cost metrics  
 Using End of Course SCHs in Cost Metrics (All except Technical College) - 15% of Performance Funds from Last Year  
 With Cost Reallocation Limited to No More Than a 4% Loss

**Preliminary Distribution Approved by the Board of Regents on March 23rd, 2011**

FY 2011-2012 Governor's Executive Budget Estimation	
Total State Funds Before Reductions	1,307,628,825
Mid-Year Budget Reduction	-34,745,030
ARRA Funds Substitution	-189,429,103
Total State General Funds After Reductions	1,083,454,692
Amount for Non-Formula Units	384,070,097
Amount Remaining for Distribution to Formula Units	699,384,595
15% for Performance	104,907,689

System	15% GRAD Act Performance Metrics Distribution Comparison			85% Cost Metrics Distribution Comparison				
	FY 11-12 State Funds After Reductions	15% of State Funds	Performance \$ Tied to GRAD Act	Distribution Difference	85% of State Funds	Distribution on Cost Metrics	Distribution Difference	Proposed FY 11-12 Distribution
LCTC	132,903,576	19,935,536	19,935,536	0	112,968,040	116,274,713	3,306,673	136,210,249
LSU	225,403,538	33,810,531	33,810,531	0	191,593,007	191,341,548	-251,459	225,152,079
SU	48,339,361	7,250,904	7,250,904	0	41,088,457	39,462,903	-1,625,554	46,713,807
UL	292,738,121	43,910,718	43,910,718	0	248,827,403	247,397,743	-1,429,660	291,308,461
Total	699,384,596	104,907,689	104,907,689	0	594,476,907	594,476,907	0	699,384,596

## **Attachment B**

### ***FY 2011-2012 Executive Budget Summary***

## FY 2011-12 Executive Budget Summary

**Preliminary Distribution Approved by the Board of Regents on March 23rd, 2011**

With Distribution of Reductions and Redistribution for Formula Campuses based on Formula Model

		FY 2011-12 Executive Budget					
System	Institution Name	State General Fund*	Interagency Transfer	Self Generated	Statutory Dedications	Federal	Total
BOR	Board of Regents	17,466,109	11,390,108	1,426,044	30,243,600	15,563,873	76,089,734
	LOSFA	104,531,420	403,956	120,864	108,270,143	52,221,573	265,547,956
	LUMCON	2,624,921	375,000	1,100,000	38,735	4,034,667	8,173,323
<b>BOR Total</b>		<b>124,622,450</b>	<b>12,169,064</b>	<b>2,646,908</b>	<b>138,552,478</b>	<b>71,820,113</b>	<b>349,811,013</b>
LCTC SYS	Baton Rouge CC	12,836,610	0	18,853,510	2,356,351	0	34,046,471
	Bossier Parish CC	10,520,708	0	15,337,283	1,355,742	0	27,213,733
	Delgado CC	33,793,044	0	55,502,919	7,103,319	0	96,399,282
	L.E. Fletcher Tech. CC	3,467,675	0	4,609,470	321,397	0	8,398,542
	LCTC BOS	7,204,861	0	0	10,000,000	0	17,204,861
	LCTCS Online	983,543	0	0	0	0	983,543
	Louisiana Delta CC	4,490,163	0	5,745,258	516,399	0	10,751,820
	Louisiana Tech. College	52,444,601	0	22,594,700	4,037,486	0	79,076,787
	Nunez CC	3,817,058	0	3,794,464	1,096,300	0	8,707,822
	River Parishes CC	3,304,439	0	3,957,930	592,136	0	7,854,505
	South Louisiana CC	5,834,537	0	8,521,042	645,783	0	15,001,362
Sowela Technical CC	5,701,414	0	5,483,864	1,217,114	0	12,402,392	
<b>LCTC SYS Total</b>		<b>144,398,653</b>	<b>0</b>	<b>144,400,440</b>	<b>29,242,027</b>	<b>0</b>	<b>318,041,120</b>
LSU SYS	EA Conway	10,513,906	102,187,007	2,799,145	0	8,058,474	123,558,532
	Huey P. Long	11,392,296	38,339,742	1,918,278	0	3,782,232	55,432,548
	LSU Ag Center	67,418,376	0	6,807,967	5,317,988	13,018,275	92,562,606
	LSU Alexandria	7,857,619	0	10,342,386	1,257,108	0	19,457,113
	LSU Baton Rouge	154,090,427	6,715,292	283,177,200	39,633,915	0	483,616,834
	LSU BOS	5,920,706	0	0	0	0	5,920,706
	LSU Eunice	6,089,263	0	7,148,463	951,726	0	14,189,452
	LSU HSC - NO	76,676,712	38,169,464	29,227,900	21,948,867	0	166,022,943
	LSU HSC - S	48,259,587	230,014,865	55,989,418	9,650,219	58,724,160	402,638,249
	LSU Shreveport	11,625,016	0	18,607,644	2,557,060	0	32,789,720
	Paul M. Hebert Law	6,568,602	0	15,770,267	2,100,529	0	24,439,398
	Pennington	13,357,991	0	825,561	94,103	0	14,277,655
	Univ. of New Orleans	45,489,754	0	73,419,461	9,857,343	0	128,766,558
<b>LSU SYS Total</b>		<b>465,260,255</b>	<b>415,426,370</b>	<b>506,033,690</b>	<b>93,368,858</b>	<b>83,583,141</b>	<b>1,563,672,314</b>
SU SYS	Southern Ag. Ctr.	2,697,217	0	0	1,805,557	3,379,752	7,882,526
	Southern BR	30,807,220	1,726,702	48,567,857	5,427,503	0	86,529,282
	Southern Law	4,828,852	0	8,490,707	1,073,786	0	14,393,345
	Southern N.O.	9,289,034	0	11,523,010	1,531,144	0	22,343,188
	Southern S'port	6,617,553	0	7,025,128	834,733	0	14,477,414
SU BOS	2,312,727	0	0	0	0	2,312,727	
<b>SU SYS Total</b>		<b>56,552,603</b>	<b>1,726,702</b>	<b>75,606,702</b>	<b>10,672,723</b>	<b>3,379,752</b>	<b>147,938,482</b>
UL SYS	Grambling State	18,952,462	0	35,504,580	2,946,562	0	57,403,604
	Louisiana Tech	42,600,241	0	58,406,811	7,113,877	0	108,120,929
	McNeese State	27,311,755	0	36,812,781	5,616,147	0	69,740,683
	Nicholls State	22,482,536	0	35,147,121	4,244,303	0	61,873,960
	Northwestern State	31,148,992	74,923	42,723,117	5,596,005	0	79,543,037
	Southeastern La	47,500,912	0	68,791,497	8,876,801	0	125,169,210
	UL BOS	1,312,270	36,000	1,150,000	0	0	2,498,270
	Univ. of La - Lafayette	65,242,347	0	74,950,893	11,232,859	0	151,426,099
Univ. of La - Monroe	36,069,216	0	42,779,751	5,070,891	0	83,919,858	
<b>UL SYS Total</b>		<b>292,620,731</b>	<b>110,923</b>	<b>396,266,551</b>	<b>50,697,445</b>	<b>0</b>	<b>739,695,650</b>
<b>Grand Total</b>		<b>1,083,454,692</b>	<b>429,433,059</b>	<b>1,124,954,291</b>	<b>322,533,531</b>	<b>158,783,006</b>	<b>3,119,158,579</b>

\* For formula campuses this amount includes performance and cost allocations.