

Senate Concurrent Resolution 108 of 2010 Regular Session

During the regular legislative session of 2010, Senator Ben Nevers proposed Senate Concurrent Resolution 108 that stated the following:

The Legislature of Louisiana does hereby urge and request the Board of Regents to examine the current funding formula for public postsecondary education to assess whether the components of the formula adequately support the goals and objectives of the master plan for higher education and appropriately recognize and address the significant differences among the institutions of postsecondary education in the state, and to provide a mechanism to phase-in the implementation of significant changes in the formula, specifically those related to performance-based funding, in a manner that does not impair the ability of each college and university to meet the needs of its students and the region it serves.

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:

“To formulate and make timely revision of a master plan for postsecondary education. At a minimum, the plan shall include a formula for equitable distribution of funds to the institutions of postsecondary education.”

National Models/Best Practices

Across the nation, formulas are developed to recommend resource allocations to the legislature or governor, measure and reward growth or productivity, and to make funding distributions to postsecondary institutions. The goal is to provide a stable and predictable funding level to institutions that is adequate and equitable. Formulas tend to become more complex as they take into account the various missions, capacities, and enrollment mixes at each institution.

There are many states across the nation that utilize funding formulas for budgetary allocations. Published reports show that thirty-eight (38) states apply a formula and nineteen (19) contain performance metrics. Ohio is transitioning to performance-based funding using course completions that will take several years to implement due to the phase in process. Texas is also looking at phasing in course completions as a component of their performance-based formula. In the 2010-12 biennium, Indiana used performance incentives. Currently, their incentives are small, but they are scheduled to be increased over time. Within the Southern Regional Education Board (SREB), fourteen (14) states use a formula, six (6)

of which use performance metrics. Most recently, states like Mississippi, Missouri, and South Carolina have stopped using formula funding models due to the current economic downturn which is impacting state budgets.

A review of practices by other states that have implemented new funding formulas shows, that in most cases, a phased in approach was used. Such an approach allows the impacted campuses to adjust their performance behavior to be rewarded by the statewide policy metrics that are built into the formula. The phased in approach also protects campuses from large shifts in funding that might negatively impact their operations and cause them to be less likely to earn performance incentive funding. Campuses must be able to make structural and procedural changes to their operations to produce the results that are expected of them. For example, if first to second year retention is a performance indicator, a campus needs time to review and strengthen strategies for student support services that help a student complete the first year and move on to the second year. The Board of Regents has endorsed the use of a phased in process in the implementation of changes in the formula while focusing on the goal of improved performance. Stability of the formula is also critical to drive performance as frequent and significant formula changes do not provide a solid foundation for institutional improvement.

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 2001 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 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, this 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 with similar missions and enrollments. A simplified calculation, it used average regional peer funding levels

per full-time equivalent (FTE) to set a funding target for each institution in Louisiana. The quality improvement component was designed to direct 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 reward institutions for 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 SREB peer quartile placement instead of full SREB category comparisons.

In 2005, the Board of Regents started work on a revision of the 2001 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 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 did not allow for phase in. The cost component of the funding formula, which was built on solid policy driven calculations based on best practices in use 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.

Future Formula Changes

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 requires alignment of the funding formula with the performance metrics that are included within the GRAD Act. Board of

Regents' staff and management board officials are currently in the process of developing recommendations that would tie performance funding to GRAD Act milestones and outcomes. This would accomplish two critical initial goals: 1) Consistent alignment of the definition of performance in both the GRAD Act and the performance funding formula; 2) Stability of the performance measures as the GRAD Act has established six-year performance contracts.

Summary and Recommendation

In response to HCR 108, the Board of Regents believes that the components of the formula do adequately support the goals and objectives of the Master Plan for Public Higher Education. Likewise, the funding formula appropriately recognizes and addresses the significant differences among the institutions of postsecondary education in the state. The Board of Regents' funding formula compares institutions to their SREB peers and takes into account different missions. Adjustments are made for economies of scale, cost differentiations for student credit hours at different student progression levels and programs (ex: Texas cost matrix adjustments), and state/student contribution based on institution type. For example, Louisiana State University and A&M College is a SREB 1 institution, thus the formula recommendation is that the state funds 50% of the costs and the students are expected to fund the remaining 50%; however, the formula recommendation for Baton Rouge Community College would be for the state to fund 69% while students are expected to fund the remaining 31%. These formula distribution recommendations are based on the state funds/student contribution mix of each institution's SREB peers.

Finally, the Board of Regents agrees with formula alignment with the GRAD Act to provide a consistent focus on performance and a sustainable definition of performance for Louisiana's institutions. Regents further requests that a phase in component be added, and that the specifics of any phase in component be established based on the FY 2011-12 appropriation.

SENATE CONCURRENT RESOLUTION NO. 108

BY SENATOR NEVERS

A CONCURRENT RESOLUTION

To urge and request the Board of Regents to examine the current funding formula for public postsecondary education to assess whether the components of the formula adequately support the goals and objectives of the master plan for higher education and appropriately recognize and address the significant differences among the institutions of postsecondary education in the state, and to provide for a mechanism to phase in the implementation of significant changes in the formula, specifically those related to performance-based funding, in a manner that does not impair the ability of each college and university to meet the needs of its students and the region it serves.

WHEREAS, Article VIII, Section 5(A) of the Louisiana Constitution provides that the Board of Regents shall have budgetary responsibility for all public postsecondary education; and

WHEREAS, the state constitution further charges the Board of Regents with the responsibility to "formulate and make timely revision of a master plan for postsecondary education" which must include "a formula for equitable distribution of funds to the institutions of postsecondary education"; and

WHEREAS, it is incumbent upon the Board of Regents that the postsecondary education funding formula fully recognize and appropriately consider the unique characteristics of each institution of postsecondary education in the state including role, scope, and mission, the specific nature and credit hour requirements of degree programs offered, community and workforce needs, enrollment characteristics, including the number of nontraditional students served, and admission standards; and

WHEREAS, it is both logical and appropriate that such funding formula also contain a performance-based funding component designed to reward institutions for high performance, provide academic accountability, and serve as an incentive for continued educational and institutional improvement; and

WHEREAS, it is also appropriate to provide for a reasonable period of time within which to phase in significant changes made to the components of the postsecondary education funding formula, specifically in regard to performance-based funding, that will allow each postsecondary educational institution to make necessary adjustments from an

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academic, programmatic, and resource allocation standpoint as well as to prevent individual institutions from receiving disproportionate, and possibly devastating, negative impacts that often result from sudden and significant change.

THEREFORE, BE IT RESOLVED that the Legislature of Louisiana does hereby urge and request the Board of Regents to examine the current funding formula for public postsecondary education to assess whether the components of the formula adequately support the goals and objectives of the master plan for higher education and appropriately recognize and address the significant differences among the institutions of postsecondary education in the state, and to provide for a mechanism to phase in the implementation of significant changes in the formula, specifically those related to performance-based funding, in a manner that does not impair the ability of each college and university to meet the needs of its students and the region it serves.

BE IT FURTHER RESOLVED that the Board of Regents submit a written report of their findings and recommendations to the Senate Committee on Education and the House Committee on Education not later than March 1, 2011.

BE IT FURTHER RESOLVED that a copy of this Resolution be transmitted to the chairman of the Board of Regents, the chairman of each postsecondary education management board, and the commissioner of higher education.

PRESIDENT OF THE SENATE

SPEAKER OF THE HOUSE OF REPRESENTATIVES

