



*Public Affairs Research
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Higher Education Performance Funding: Louisiana's Options

EXECUTIVE SUMMARY

Colleges and universities in Louisiana lag behind their peers in other states on a variety of performance indicators. While improving, Louisiana still has a low percentage of its population that is highly skilled or college educated. The portion of the population that enrolls in higher education programs is about equal to both the South and the nation, yet the percentage of those who graduate or earn certificates of completion is extremely low. Measures are taken regularly on these and other indicators for comparison purposes, but there is little incentive to improve. Although Louisiana has made several changes in recent years that are resulting in better performance, large improvements are still needed to reach peer averages. If the state wants to become a leader and surpass average status, a more progressive funding system could spur that change.

At the Board of Regents' request, the Governor has recommended funding for the upcoming budget year that would be used to start a performance funding program, but specifics of how the program would be administered have yet to be developed. This analysis recommends an approach that would reward significant improvement but would not grant blanket rewards for mediocre performance or success in hitting easy targets. Some states currently use measures of success in higher education such as: year-to-year retention, employer satisfaction with graduate skills and research funding levels. These measures are only a sample of the performance indicators that can be used to set goals tailored to fit the mission and circumstances of each of Louisiana's higher education institutions.

This report offers examples of successful performance funding programs for higher education, both outside and within Louisiana. The lessons learned from these early initiatives conclude that:

- Goals must be specifically tailored for each institution and tied to a statewide strategic plan for higher education;
- Funding sources must be stable and predictable;
- Incentives should build on an adequate funding base;
- Incentives should not be considered entitlements, rather hard-earned rewards;
- Measurement data should be uniformly collected and easily accessible to the public;
- Performance incentive programs should be routinely reviewed to ensure that success is continually redefined as the state's needs continue to change.

Institutions have traditionally resisted state mandates to achieve specific performance goals, arguing that achievement is hampered by inadequate resources. Since 2001, the state's funding formula has based adequacy on the average funding levels of peer institutions in the Southern states. Prior to the current fiscal year, full formula funding had not been provided since 1981 and the funding that was provided lagged significantly behind the regional peer averages for most institutions. The proposed executive budget again provides full formula funding, as well as monies for a performance funding initiative. However, with budget cuts looming, full funding is not assured.

The Board of Regents currently is revising the master plan for higher education. As part of the master planning process, the Board of Regents is rethinking the funding formula and refining the goals and missions of each institution. There are also several bills in the current legislative session that address higher education funding through tuition setting flexibility.

This report and two previous PAR reports make recommendations in these areas. A 2003 PAR report recommended the development of a formula that would better adjust for individual institutions' costs, needs and missions as well as ensure that the institutions were providing programs to further statewide goals. A 2007 report favored returning tuition setting policy to the systems with the caveat that maximum tuition levels be based on peer charges and relative household income. It was emphasized that carte blanche increases in tuition should not be granted without evidence that success issues were being addressed.

This report builds on and adds to the prior recommendations by calling for alignment of the state's workforce needs with higher education priorities, revision of the state's funding formula for higher education, establishment of institutional performance measures and design of a performance funding initiative.

Revising the funding formula and developing a rigorous performance funding initiative tied to a new Master Plan for Higher Education and a statewide strategic plan for workforce development and higher education could maximize the potential of Louisiana's colleges and universities to promote the state's economic development. The recommendations in this report are designed to increase the number and diversity of students not just entering, but completing, higher education programs, especially in fields where Louisiana-based, high-value, high-growth employment opportunities are waiting.

RECOMMENDATIONS

Funding Formula

Recommendation No. 1: Develop a statewide strategic plan for workforce development and higher education to coordinate system- and campus-level priorities with the state's current and anticipated workforce needs. The plan should be established and regularly reviewed by the major stakeholders, including the BoR, system management boards, the Governor's Office, the Department of Economic Development, the Legislature, BESE, the Department of Labor or its successor, and business and industry leaders.

Recommendation No. 2: Include a factor in the core component of the funding formula to compensate institutions for meeting workforce needs as identified in a strategic plan for workforce development and higher education.

Recommendation No. 3: Incorporate adjustments into the funding formula that compensate each institution for special costs related to its mission, student levels, programs offered and demographics.

Performance Measurement

Recommendation No. 4: Update the institutional mission statements in the Master Plan for Higher Education to include campus-level goals that emphasize the connection between each of the state's higher education institutions and the goals identified in the new statewide strategic plan for workforce development and higher education.

Recommendation No. 5: Enhance currently reported data on retention, progression and completion by including the rates for transfer, part-time, minority, low-income, first-generation and re-entering students. Statewide and individual institution results should be posted on each measure.

Performance Funding

Recommendation No. 6: Develop a performance funding initiative that defines success for each institution and rewards those institutions that achieve and/or make significant progress toward success in a timely manner. Public recognition for success and consequences for failure should be key elements of the program.

Recommendation No. 7: Develop for each institution specific, mission-driven performance goals that are tied to the broad goals outlined in the master plan and adjusted as necessary to align higher education results with the state's and/or region's economic needs.

Recommendation No. 8: Identify a set of performance peers for each institution that are similar in mission, admission standards, student levels and demographics.

Recommendation No. 9: Design the performance funding initiative in a manner to insulate the funding from being easily cut so that the rewards can be relied upon to promote progress toward long-term goals.

INTRODUCTION

A better educated citizenry is seen as a major catalyst for progress in economic development and social equity. To ensure adequate funding for basic operations of higher education systems and decrease political influence in the appropriation process, many states use formulas to determine how higher education dollars should be allocated among institutions.

Many higher education funding formulas have been redesigned to meet goals beyond establishing an adequate base funding level. The most common goals of higher education funding formulas are to:

- Provide institutions with adequate and predictable revenue in a flexible enough manner to allow institutions to respond to changing demands in the economy and the student bodies served;
- Equitably distribute funds among state institutions based on role, scope, mission and size;
- Be simple to understand;
- Be calculated using valid, reliable data;
- Establish funding levels comparable to peer institutions;
- Guide institutions in meeting the state's goals for economic development; and,
- Reward institutions that effectively and efficiently meet their own goals and those of the state.

However, many of these goals conflict and a good funding formula requires a balance that is guided by the individual state's educational and economic status.

This report examines Louisiana's current funding process. In particular, it looks at the viability and usefulness of tying performance to funding. Over the past 20 years, performance funding has been gaining much attention in state government financing. Before doling out limited state monies, policymakers want to ensure that the governmental agencies are using resources efficiently and effectively. In higher education, institutions must be accountable for providing benefits not only to their own student body, but to the state as a whole. The measures used to gauge success in higher education depend on the goals of the system that uses them. In general, successful performance funding initiatives:

- Use measures that are based on valid, reliable data that are not easily manipulated;
- Track enough measures to get an accurate snapshot but not so many that reporting is onerous;
- Set high but attainable goals;

- Gain institutional buy-in by including only measures that institutions can influence; and,
- Widely disseminate results in order to inform policymakers and the public about performance issues.

This report offers an analysis of Louisiana's options for improving the performance of its higher education institutions by using funding incentives. An examination of the performance of Louisiana's higher education institutions as they relate to peer institutions on a variety of success measures is presented. Conclusions are drawn from an analysis of Louisiana's current funding formula, goals and objectives currently set by the master plan and budget documents, and incentive funding mechanisms currently proposed by the Board of Regents.

Scholarly research and other states' post-secondary performance funding programs were reviewed and trend data on measures of higher education funding and achievement for Louisiana, the Southern states and the nation were compared. The Southern states as defined by the Southern Regional Education Board (SREB) include Alabama, Arkansas, Delaware, Florida, Georgia, Kentucky, Louisiana, Maryland, Mississippi, North Carolina, Oklahoma, South Carolina, Tennessee, Texas, Virginia and West Virginia.

LOUISIANA'S CURRENT FUNDING PROCESS

Reaching the average full-time equivalent (FTE) regional funding level has been seen as a necessary first step to begin providing an adequate base for Louisiana's higher education system. Before the current fiscal year, Louisiana lagged significantly behind the regional average in general operations funding per FTE for the entire system and most institutions. Increased funding in the 2007-08 budget provided all Louisiana institutions at least the full formula funding based on the latest SREB FTE data and Louisiana student enrollment data. Due to a time lag in the data, it is still unclear where Louisiana's general operations funding stands compared to the actual SREB average for the 2007-08 year. Yet, it is obvious Louisiana's commitment to higher education has significantly increased over the past decade. According to SREB data, if only state tax funds are examined and adjusted for inflation, Louisiana has increased appropriations to higher education by more than 47 percent since 1997 while the increase for all Southern states was just slightly more than 16 percent. This has occurred even though education is one of the few unprotected areas in Louisiana's budget.

Louisiana is one of 38 states that use a formula to help guide appropriation of state funds for higher education. All

Southern states, except Delaware, currently use formulas. Formulas are most often used to generate budget requests, but many are used to allocate funding and some are used in both processes. The exact mathematical formula used is unique for each state, but in general most determine a delivery cost and multiply that by enrollments by level of degree sought and academic area studied.

Louisiana has been constitutionally required to use formulas since 1974 when the Board of Regents (BoR) was mandated "...to formulate and make timely revisions of a master plan for higher education." The master plan is required to include "at a minimum...a formula for the equitable distribution of funds to the institutions of postsecondary education." The formula was not actually used to determine the amounts appropriated to each institution until this year. Because the formula was never "fully funded," actual appropriations were set according to their historic levels without regard to the formula, resulting in some institutions receiving all or more than the formula determined they should receive and other receiving far less than full funding. Nevertheless, the formula was used each year to establish target funding levels. Those targets have been and will continue to be an important part of the debate surrounding what level of investment the state should make in public post-secondary education and what outcomes it should expect in return.

Louisiana's current formula was established in the 2001 Master Plan for Public Postsecondary Education. The funding formula has three main components: a core funding component, a quality improvement component and a performance incentive component. A few limited special programs are funded outside of the formula. Only the core component has ever received funding, and even it was not funded completely until the current budget year. For the upcoming 2008-2009 budget year, 100 percent funding of the core component plus additional monies to begin funding the performance incentive component have been included in the proposed executive budget.

The core component is designed to provide equitable funding for institutions with similar missions and enrollments. It is a simplified calculation that uses average regional peer funding levels per FTE to set funding targets for each institution in Louisiana. Institutions are categorized by their SREB designation, which is based on the number and variety of degrees conferred (see Table 1 for the classification of each Louisiana institution). Categories are not recognized in the funding formula for either the community or technical colleges; they are grouped as all community colleges and all technical colleges. To prevent four-year institutions from having an incentive to add programs beyond their specified missions,

funding amounts are the same for the upper level of one category and the lower level of the next category. The funding formula is adjusted by applying an academic factor to account for high-cost programs and also uses average enrollment to determine the number of FTEs served. Before last year, Louisiana lagged significantly behind the regional average in funding, so reaching the average was seen as a necessary first step to begin providing an adequate base.

The quality improvement component is designed to target resources to institutions for programs of regional and national eminence, particularly those in the area of workforce and economic development. Rough guidelines for this unfunded incentive would require such programs to meet the mission of the institution and the economic goals of the state. Specific parameters have not been set nor have the economic goals of the state been defined.

The performance incentive component is 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. Neither funding for this component nor the specific parameters for providing the rewards has been developed. Yet it is expected that with the BoR's 2009 budget request including funding for a performance component, the parameters will be forthcoming shortly.

REVISING LOUISIANA'S FORMULA

The current formula fulfills several of the goals of best practices for funding formulas. The formula is based on valid, reliable data. It allows institutions to predict their revenue streams and spend the monies as they see appropriate. The formula is simple enough to show that Louisiana institutions have not been receiving adequate funding to allow competition with peer institutions.

Yet there are major shortcomings in the current formula that need to be addressed to move the state forward. Many are tied to the formula's reliance on SREB averages to calculate the funding targets. Those data are not nuanced enough to account for the wide variation of factors that affect the costs to educate students in varying disciplines, at various levels, in differing types of schools. Using SREB classifications to identify peer groups for funding results in comparisons among a broad range of institutions with widely varying missions, admission standards, programs and demographics. The current funding formula does attempt to narrow some of the category ranges by using quartile placement and an academic adjustment factor within the categories.

Table 1. 2006-07 Louisiana Higher Education Institutions' SREB Classifications

SREB Category	Governance System ¹	Number of Degrees/Certificates Awarded ²			
		Graduate & Professional	Undergraduate	Associates & Certificates	Total
Four-Year Institutions					
Category 1					
LSU, BR	LSU	1,358	4,617		5,975
Category 2					
Louisiana Tech University	UL	446	1,380	86	1,912
University of Louisiana at Lafayette	UL	424	2,047		2,471
University of New Orleans	LSU	699	1,368		2,067
Category 3					
Southeastern Louisiana University	UL	382	1,740	77	2,199
Southern University at BR	SU	315	822	4	1,141
University of Louisiana at Monroe	UL	396	877	59	1,332
Category 4					
Grambling State University	UL	173	517	36	726
McNeese State University	UL	272	1,043	138	1,453
Nicholls State University	UL	126	724	166	1,016
Northwestern State University	UL	277	1,052	373	1,702
LSU-Shreveport	LSU	79	462		541
Category 5					
Southern University at NO	SU	157	287	10	454
Category 6					
none					
Two-Year Institutions with Bachelor's					
LSU-Alexandria	LSU		156	188	344
Category 1					
Delgado Community College	LCTC			1,097	1,097
Category 2					
Baton Rouge Community College	LCTC			201	201
Bossier Parish Community College	LCTC			426	426
LSU-Eunice	LSU			275	275
Category 3					
Louisiana Delta Community College	LCTC			64	64
Nunez Community College	LCTC			159	159
River Parishes Community College	LCTC			58	58
South Louisiana Community College	LCTC			94	94
Southern University at Shreveport	SU			380	380
Technical Institutes					
Category 1					
Sowela Technical Community College	LCTC			373	373
Category 2					
L.E. Fletcher Technical Community College	LCTC			83	83
Size unknown					
all remaining technical colleges	LCTC				570

SOURCE:

¹sreb.org/main/EdData/InstCategories/institutions.asp

²Board of Regents: <http://as400.regents.state.la.us/pdfs/cmpl/cmpl0607>

Further, the data used to calculate formula funding have two fundamental time lags. Budget requests are based on two-year-old SREB data and an estimate for the latest year's enrollment. This can leave institutions with funding levels different from 100 percent even when the state's intention was to fund fully. For example, in 2007-08, 100 percent formula funding was provided based on 2005-06 SREB data and latest year's estimated enrollments. However, as shown in Table 2, when the calculation is updated with 2006-07 SREB data and updated state enrollment data, only one institution currently has a 100 percent implementation rate. These rates are expected to change even more when SREB publishes actual 2007-08 data.

Another issue is that the SREB average includes Louisiana in the calculation. Thus, the state's own funding decisions in the past affect the average, which in turn affects the state's funding decisions going forward. Also, many argue that setting goals at the average may breed mediocrity, and now that Louisiana has finally reached the average regional funding level, it is time to develop a funding formula that strives to provide more than an average postsecondary educational system.

The current formula does not have any ties to the economic goals of the state. The quality improvement component was designed to address this problem. However, it was neither fully defined nor funded. If the state were to explicitly define the economic needs and, in particular, report areas where there are actual or anticipated shortages of workers, schools could develop and/or expand programs to fill those needs. A coalition of stakeholders, including the BoR, system management boards, the Governor's Office, the Department of Economic Development, the Legislature, BESE, the Department of Labor or its successor, and business and industry leaders, should develop a statewide strategic plan to link state policies in higher education and workforce development. The focus of the plan should cross all sectors of the economy and disciplines in the state's higher education system. The statewide strategic plan for workforce development and higher education would project Louisiana's need for a wide variety of professions like teachers, nurses, doctors, welders and construction contractors. The priorities set forth could then be incorporated into the new Master Plan for Higher Education to align workforce goals with intuitional goals. The plan should be regularly reviewed and updated to tailor goals for changing economic conditions.

To support institutions' efforts to comply with workforce goals, a workforce need factor should be incorporated into the core formula. Much like the academic cost factor, the BoR could provide extra funding for programs that

Table 2. Year-End Percentage of Full Formula Funding Appropriated to Institutions

	Implementation Rate		
	2001-02	2006-07	2007-08 ¹
Four-year Institutions	(%)	(%)	(%)
Category 1			
LSU, BR	65	83	95
Category 2			
Louisiana Tech University	74	78	92
University of Louisiana at Lafayette	69	78	92
University of New Orleans	67	88	108
Category 3			
Southeastern Louisiana University	61	69	85
Southern University at BR	82	102	109
University of Louisiana at Monroe	78	109	106
Category 4			
Grambling State University	95	107	111
McNeese State University	68	75	94
Nicholls State University	66	83	97
Northwestern State University	59	68	95
LSU-Shreveport	75	79	102
Category 5			
Southern University at NO	66	102	140
Category 6			
none			
Two-year Institutions			
with Bachelor's			
LSU-Alexandria ²	64	76	82
Category 1			
Delgado Community College	68	88	97
Category 2			
Baton Rouge Community College	81	78	93
Bossier Parish Community College	85	89	92
LSU-Eunice	64	93	100
Category 3			
Louisiana Delta Community College	94	86	97
Nunez Community College	77	85	125
River Parishes Community College	103	83	86
South Louisiana Community College	90	79	83
Southern University at Shreveport	89	79	97
Technical Institutes (ALL)	104	147	140
Sowela		120	123
Fletcher Technical Community College		106	130

¹ 2007-2008 implementation rate is as of April 18, 2007, and in comparison to the SREB 2006-2007 data.

²LSU Alexandria's target funding is calculated using SREB 4-year 6 Category.

NOTE: Some institutions have changed classifications over time, thus the implementation rate refers to the classification the institution was in at the time the funding was appropriated.

SOURCE: Board of Regents

are identified as necessary to fill the current and future economic needs of the state or the region. This funding component should be allocated in addition to start-up money provided for such programs.

The state has never appropriated resources for the current formula to provide rewards for institutions that have efficiently and effectively met their missions. As pointed out earlier, the current formula has a performance incentive component that was designed to reward institutions, but has never been funded or fully defined. The BoR is currently working on defining the measures and is seeking funding for the performance component. For a review of performance funding and recommendations see the Performance Funding section of this document.

The BoR is updating the master plan with a goal to release a new plan in October 2008. It is expected that the new plan will include a new funding formula. Drafts show that the BoR is working on a formula that is tied more closely to the actual costs associated with delivering education at each institution. The model currently being discussed looks much like the formula used before 2001. Student credit hours are again proposed to be the cornerstone of the formula with add-ons for research, academic support, general administration and bonuses (yet to be determined). To move the state's higher education system forward, previous issues with the past formula should not be ignored. Some of the biggest complaints with the old formula were that it was overly complex and overly enrollment driven and provided incentives to add programs beyond a university's stated mission. Also, it was difficult to assess the actual costs of each factor. Finally, the new formula should focus not only on costs and enrollments, but also on student success.

RECOMMENDATIONS TO SHARPEN THE FOCUS OF STATE SPENDING ON HIGHER EDUCATION

Recommendation No. 1: Develop a statewide strategic plan for workforce development and higher education to coordinate system- and campus-level priorities with the state's current and anticipated workforce needs. The plan should be established and regularly reviewed by the major stakeholders, including the BoR, system management boards, the Governor's Office, the Department of Economic Development, the Legislature, BESE, the Department of Labor or its successor, and business and industry leaders.

Recommendation No. 2: Include a factor in the core component of the funding formula to compensate institutions for meeting workforce needs as identified in a strategic plan for workforce development and higher education.

Recommendation No. 3: Incorporate adjustments into the funding formula that compensate each institution for special costs related to its mission, student levels, programs offered and demographics.

MEASURING SUCCESS

In 1988, the SREB set a goal that by 2000 all member states would regularly assess "the quality and effectiveness of all colleges and universities." The SREB suggested that the assessment should not only take into account the individual institution's mission and scope but should also set minimum expectations for all of higher education in a state. It also recommended that assessment indicators and results be widely disseminated in order to lead to improvements in campus operations and student learning, help the public understand higher education's role in society and contribute to better policymaking. On the national front, by the end of the 1990s most higher education accreditation agencies required proof of institutional effectiveness and federal legislation required institutions to provide prospective students with information on institutional performance.

In Louisiana, Act 1465 of 1997 set performance-based budgeting requirements for all state agencies and allowed funding to be linked to performance. In response, BoR 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 master plan of 2001 expanded beyond the four core objectives and set broad statewide performance goals and objectives. The goals included 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. For example, the goal was to increase minority participation in postsecondary education by 5 percent by 2005, yet it was not delineated how each system or institution was to contribute to that increase. Some systems and institutions have set goals for these objectives and have allowed institutions to report on additional indicators that reflect their individual circumstances and missions.

There are many measures that can be used to gauge success in higher education. Each state's economic and social history and future needs should be considered in defining success goals. The goals should be set at aspirational but achievable levels. Institutional goals should be mission driven to ensure achievability and applicability and should specify the measures used to gauge success, the baseline for comparison and the timeline for reaching success. Measures should not be easily manipulated or cause unintended, undesired results. The measures should also be based on valid, reliable and comparable data.

Several specific factors are beginning to be commonly used to measure success in higher education: retention and graduation rates, time to completion, two- to four-year college transfers, program accreditation, standardized test scores, research funding, and student and employer satisfaction levels. Even some of these well-accepted and well-used measures have inherent deficiencies. For example, standardized test scores, if not necessary for a grade or advancement, are not always taken seriously and may not actually measure student's true abilities. Satisfaction surveys may be skewed toward the extremes because many respondents to the surveys had either extremely positive or negative experiences. Those with average experiences are not often motivated to respond.

Due to the limitations of many states' data collection systems, retention and graduation rates only include first-time full-time freshmen who remain at the same institution throughout their entire educational career. Therefore, those rates fail to capture many of today's students: part-time, transfers or re-entering adults. Louisiana's database can follow students who remain in the state throughout their entire higher education career. It can also compile data on race, sex, gender and Pell Grant status, just to name a few, but much of the data are only comparable among institutions within Louisiana. The more refined data could be used in addition to the nationally reported standards to help develop benchmarks for institutional success and to compare with in-state peers.

Changes in success levels cannot always be attributed to a change in a specific input. Thus, policymakers still have trouble determining which programs to continue or discontinue. For example, Louisiana's recent gains on some measures could be attributed to several statewide initiatives instituted in the recent past, including elementary and secondary (LEAP) testing requirements, Tuition Opportunity Program for Students (TOPS) core-curriculum requirements, selective admission requirements, quality teacher initiative, advent of the community college system and increased funding.

It should be noted that many of the changes to Louisiana's higher education system have occurred in the last 10 years, and thus the impact of these changes are just now being seen in the data reported. And, to complicate things further, the impact of the policy changes could be obscured by the effects of the 2005 hurricanes. For example, the more stringent admission standards as set in the 2001 master plan seemed to be positioning institutions to achieve better graduation rates. However, after the 2005 hurricanes, graduation rates at many institutions declined likely due to students moving out of state, switching to part-time status or simply postponing final graduation requirements.

Table 3 lists Louisiana's overall current and historical levels on several success measures compared to the Southern states and the SREB average. These data indicate that Louisiana has progressed closer to regional averages, but still needs to make major gains. Table 4 disaggregates some of the data and lists Louisiana institutional data for these measures so that institutional trends can be seen. Most two-year institutions are too new to develop much trend data, yet available data are presented. The data on four-year institutions show that there are some clear leaders on the chosen measures. For instance, McNeese and LSU-Shreveport have increased both first to second year retention rates and graduation rates by much larger percentages than other four-year institutions. Both institutions were near the bottom for performance in the base year chosen; however their increases have moved them into leadership positions in their SREB category. LSU-Baton Rouge and Louisiana Tech graduates are graduating, on average, in a much shorter time than those at other four-year institutions. Since these institutions were the first to adopt admission criteria, it is expected that similar results will follow at other four-year institutions. If not, policymakers could try to identify other policy changes that may be contributing to success at the lead institutions.

PERFORMANCE MEASUREMENT OUTSIDE OF LOUISIANA

Nationally, several pilot programs are being developed to improve higher education success and to disseminate such information to prospective students. One of the newest is Access to Success, an initiative by the National Association of System Heads (NASH) and the Education Trust, to at least double low-income and minority student access to and success in higher education by 2015. Participation and completion of minority and low-income students is necessary in Louisiana because in the near future the state's total population is expected to decrease, while minority populations are expected to increase. The "2006 Measuring Up Report" for Louisiana showed that if minorities in the state had the same educational attainment as whites, total

Table 3. Selected Performance Measures in the Southern States

	First-Year Persistence Rates ²											Graduation Rates for Four-Year Institutions ² (%)			Academic Research \$ per \$1,000 of Gross State Product ³		Academic Patents per 1,000 Science & Engineering Doctorate Holders ³		
	Total Public FTE Enrollment Per Capita ¹			Two-Year Institutions			Four-Year Institutions			1995 Cohort			2000 Cohort			1998		2003	
	2000	2004	2004	2000 Cohort	2004 Cohort	Difference	2000 Cohort	2004 Cohort	Difference	1995 Cohort	2000 Cohort	Difference	1998	2003	1997	2003			
Alabama	3.8	4.0	70.3%	81.4%	-11.1%	84.6%	84.6%	0.0%	48.9%	48.7%	-0.2%	4.2	4.3	5.2	15.2				
Arkansas	3.0	3.5	55.4%	56.2%	-0.8%	78.5%	77.0%	-1.5%	32.4%	38.1%	5.7%	1.9	2.5	5.5	14.9				
Delaware	3.7	3.8			0.0%	84.0%	79.1%	-5.0%	66.0%	68.8%	2.9%	2.0	2.1	5.8	10.6				
Florida	2.7	3.1	70.1%	72.2%	-2.1%	86.3%	86.3%	0.0%	55.5%	59.1%	3.7%	1.7	2.2	14.6	16.7				
Georgia	2.7	3.2	68.0%	66.7%	1.3%	82.5%	85.3%	2.8%	41.8%	49.4%	7.5%	3.2	3.7	8.3	12.6				
Kentucky	3.0	3.4	63.9%	64.2%	-0.2%	83.6%	84.1%	0.6%	45.1%	47.2%	2.1%	2.2	2.9	5.5	8.3				
Louisiana	3.8	4.1	41.4%	58.6%	-17.1%	77.0%	80.1%	3.1%	31.3%	36.3%	5.0%	3.0	3.6	7.7	9.7				
Maryland	2.7	2.9	70.8%	78.9%	-8.1%	91.1%	87.3%	-3.8%	54.3%	59.9%	5.6%	5.5	6.7	11.3	17.3				
Mississippi	3.6	4.1			0.0%	76.9%	75.5%	-1.4%	46.5%	49.2%	2.7%	2.5	4.5	3.1	6.3				
North Carolina	3.8	4.4	53.3%	53.3%	53.3%	84.8%	84.3%	-0.5%	57.3%	59.3%	2.0%	3.7	4.4	12.8	15.7				
Oklahoma	3.3	4.5	56.8%	62.2%	-5.4%	81.4%	80.7%	-0.7%	41.5%	48.1%	6.5%	2.6	2.9	6.5	6.0				
South Carolina	3.2	3.4	58.9%	65.3%	-6.4%	84.4%	84.7%	0.3%	55.0%	59.6%	4.6%	2.4	3.4	4.6	11.0				
Tennessee	2.7	2.9	58.1%	60.9%	-2.8%	80.3%	82.1%	1.8%	42.3%	47.7%	5.4%	2.2	3.0	5.5	6.4				
Texas	3.2	3.6	61.3%	73.0%	-11.7%	90.1%	87.3%	-2.8%	43.9%	50.0%	6.1%	2.7	3.4	9.5	11.5				
Virginia	3.2	3.4	63.8%	63.3%	0.5%	89.4%	90.0%	0.6%	62.9%	66.9%	4.0%	2.2	2.5	9.3	8.3				
West Virginia	3.4	3.8	60.0%	75.9%	-15.9%	79.7%	79.0%	-0.8%	42.9%	46.7%	3.8%	1.6	2.6	1.8	10.3				
SREB Average	3.1	3.5	62.7%	63.0%	-0.3%	84.6%	84.6%	-0.1%	48.0%	52.2%	4.2%	3.2	3.6	12.0	12.2				
National Average												2.9	3.6	10.5	13.0				

NOTE: For comparability, even where more recent data are available, pre-hurricane data were used.

¹ Source: SREB.org/main/eddata/factbook & PAR calculations

² Source: SREB.org/main/eddata/factbook

³ Source: www.nsf.gov/statistics/seind06

Table 4. Louisiana Institutional Success Rates on Specific Measures

SREB CATEGORY	1st- to 2nd-Year Retention Rates				Graduation Rates¹			Years to Completion	
	1995-96	2003-04	2007-08	Difference 1996 to 2008	1995 Cohort	2001 Cohort	Difference	Graduation Year = 2006-07	
								Associate	Baccalaureate
<u>Four-Year Institutions</u>									
Category 1									
LSU, BR	84.5%	90.1%	91.3%	6.8%	63.1%	64.3%	1.2%		4.8
Category 2									
Louisiana Tech University	79.1%	84.4%	81.7%	2.6%	57.5%	51.8%	-5.7%	5.5	4.9
University of Louisiana at Lafayette	70.6%	80.4%	84.1%	13.5%	31.9%	34.2%	2.3%		5.8
University of New Orleans	73.9%	78.1%	81.3%	7.4%	29.4%	27.3%	-2.2%		6.3
Category 3									
Southeastern Louisiana University	68.3%	75.4%	75.9%	7.6%	29.2%	34.2%	5.0%	6.2	5.9
Southern University at BR	66.0%	77.2%	71.8%	5.8%	29.5%	30.9%	1.4%	14.3 ²	6.1
University of Louisiana at Monroe	68.0%	74.1%	76.0%	8.0%	31.2%	33.9%	2.7%	5.6	6.1
Category 4									
Grambling State University	61.8%	71.8%	63.8%	2.0%	32.4%	33.8%	1.3%	4.7	5.5
McNeese State University	59.2%	74.1%	73.0%	13.8%	28.7%	36.9%	8.1%	6.8	6
Nicholls State University	69.3%	68.8%	76.0%	6.7%	30.9%	29.4%	-1.5%	6	6
Northwestern State University	68.3%	75.6%	77.4%	9.1%	34.6%	33.9%	-0.7%	6.6	5.7
LSU-Shreveport	58.3%	70.0%	75.2%	16.9%	29.1%	34.1%	5.0%		6.4
Category 5									
Southern University at NO	50.1%	54.9%	50.3%	0.2%	10.8%	8.5%	-2.4%	9.1 ²	8.9
Category 6									
none									
<u>Two-Year Institutions</u>									
with Bachelor's									
LSU-Alexandria	67.1%	60.4%	59.4%	-7.7%	19.8%	19.9%	0.2%	6	7.6
Category 1									
Delgado Community College	58.9%	58.2%	58.9%	0.0%	6.8%	5.1%	-1.7%	8	
Category 2									
Baton Rouge Community College		63.5%	55.7%			13.9%		5.3	
Bossier Parish Community College		63.7%	57.5%			17.3%		5.1	
LSU-Eunice	62.5%	62.7%	67.2%	4.7%	25.4%	27.8%	2.4%	5.6	
Category 3									
Louisiana Delta Community College		63.4%	66.5%					5.7	
Nunez Community College	43.8%	56.6%	50.0%	6.2%	16.7%	10.7%	-5.9%	6.8	
River Parishes Community College		74.4%	56.2%			13.0%		5.2	
South Louisiana Community College		61.5%	61.6%			12.6%		4.7	
Southern University at Shreveport	54.5%	67.1%	56.2%	1.7%	11.4%	20.1%	8.8%	5.8	
<u>Technical Institutes</u>									
Category 1									
Sowela Technical Community College	n/a	n/a	54.4%						
Category 2									
L.E. Fletcher Technical Community College	n/a	n/a	51.7%						
Size unknown									
all remaining technical colleges	n/a	n/a							

SOURCE: Board of Regents

¹Graduation rates are first awards for first-time full-time students who earn the degree within 150% of time.

²Low number of graduates results in skewed data.

personal income would have been \$4.6 billion higher. Thus, for the state to make significant economic gains, minority populations must achieve more success in higher education.

Another pilot program is the College Portrait, a “voluntary system of accountability” for four-year institutions developed by National Association of State Universities and Land Grant Colleges and the American Association of State Colleges and Universities and funded by Lumina Foundation for Education. It includes data about each participating institution to help prospective students compare institutions on select characteristics: undergraduate student profiles by race, gender and age; undergraduate graduation and retention rates; costs; number of degrees awarded; and areas of study. More detailed institution-specific information may be provided by the institution. As the system comes online in 2008, prospective students will be able to compare institutions and develop their own ideas on acceptable levels of success. There are some issues left to be worked out on both of these new programs. However, as these systems and others develop, participation in these programs may prove beneficial in improving success at Louisiana’s institutions of higher education.

RECOMMENDATIONS FOR PERFORMANCE MEASUREMENT

Recommendation No. 4: Update the institutional mission statements in the Master Plan for Higher Education to include campus-level goals that emphasize the connection between each of the state’s higher education institutions and the goals identified in the new statewide strategic plan for workforce development and higher education.

Recommendation No. 5: Enhance currently reported data on retention, progression and completion by including the rates for transfer, part-time, minority, low-income, first-generation and re-entering students. Statewide and individual institution results should be posted on each measure.

PERFORMANCE FUNDING

Since the 1990s policymakers have become increasingly less satisfied with giving additional funding without seeing proof of successful outcomes. The public continually insists on more accountability for all of state government. Thus, state leaders want to assure the public that higher education institutions are responding not only to the needs of the students they serve, but also to the needs of the businesses

and industries of the state, and to the changing needs of the global economy. However, many argue that a Catch 22 exists: Increased performance is reliant on increased funding. They cite the highest performing schools as also being the best-funded schools.

To increase performance in any postsecondary system, success needs to be well-defined and well-communicated. Success measures must focus on areas over which institutions have influence, and be based on valid, reliable data that cannot be easily manipulated. Although all states track performance measures for higher education, not all reporting is designed to increase performance. And even then, not all states monetarily reward improved performance. Only 19 states nationwide and six Southern states (Florida, Kentucky, Oklahoma, South Carolina, Tennessee and Texas) actually appropriate monies based on performance. Those states appropriate a relatively small amount of the total budget for improved performance.

NATIONAL EXAMPLES

Tennessee. Tennessee has the longest-running performance funding program in the nation. The program was established in 1979 and allocates about 5.5 percent of the higher education budget based on performance results. The greatest emphasis is on improved student success and performance. Indicators for student success include pass rates on licensure exams performance on general education and subject field exams, and student and alumni satisfaction levels. Program and institutional success is also rewarded. Indicators for program and institutional success include number and percent of accredited programs, retention and graduation rates, employer satisfaction, and number of transfer students. An institution can earn from 0 to 100 points depending on its achievement on each objective. A score of 100 points results in the institution earning the entire performance reward available; lower scores result in decreased or no additional funding. Money earned through the performance funding program is placed in the institution’s general fund to be used at the institution’s discretion.

A 2004 review of the Tennessee program credits the longevity of the program to the phase-in of the program in five-year cycles with a review of the program at the end of each cycle. The cycles also kept the major stakeholders continually involved in the program. The reviews led to the system evolving as the state and its education system have changed. Even after 25 years of implementation, several problems persist. Due to its longevity, institutions have quit viewing it as a true incentive program but rather part of their core funding. On the other hand, due to the performance funds being established as an extra line item

in the budget, it has become increasingly difficult to protect the funds from budgetary cuts. The program was also cited for failing to communicate goals to faculty members, the very ones who directly interact with and affect students.

Kentucky. Kentucky has a different program for funding performance. It has eight trust funds to provide money beyond base funding to help encourage certain activities. Two main funds that reward performance, collectively known as “bucks for brains,” are the Research Challenge Trust Fund and the Regional University Excellence Trust Fund. Both reward universities that increase endowments and enhance participation, retention and attainment. The Research Challenge Trust Fund is designed specially to reward the state’s two premier research universities for developing programs of national excellence, while the Regional University Excellence Trust Fund is to reward the state’s comprehensive universities that develop programs that meet regional and state needs.

A 10-year review by the Kentucky Chamber of Commerce showed that significant gains had been made toward all goals, but to reach the overall goal by 2020, even greater success will have to be achieved. It was also discovered that several problems existed in the way funding distribution was originally set. Thus certain institutions receive a larger share of the funding regardless of their effort.

South Carolina. The most often cited failure in performance funding was the South Carolina program that appropriated *all* funding for higher education based on achievement of goals. The program required reporting on 34 indicators in nine categories. The program was well received by policymakers and the general public; however, it was viewed by the higher education system as a burdensome reporting system that failed to recognize the importance of institutional missions and history or basic operational costs. The program has been scaled back to 14 indicators that are more mission sensitive and is designed more to reward improvement and less as a base funding mechanism.

LOUISIANA EXAMPLES

Teacher Preparation Accountability Program. Louisiana has not implemented a statewide performance funding program for all of higher education. However, the statewide Teacher Preparation Accountability Program has proved to be very successful at prompting institutional improvements and may serve as a model for implementing a larger scale performance funding program for postsecondary institutions in the state. The program was created in order to comply with the Higher Education Act of 1998. It assesses the performance of all teacher preparation

programs in the state. This program was part of a complete redesign of all teacher preparation programs in the state (public and private) and established standard performance criteria and goals for all the programs.

The first phase involved assessing the passage rate of students who had completed university teaching programs (completers) on the national teacher’s exam (PRAXIS). In the second phase, student and employer satisfaction and the percentage of certified teachers were assessed. The third stage was designed to increase third-year teacher retention rates by establishing mentor programs and to determine how successful new teachers are compared to established teachers. The first two phases have been fully implemented and the third phase is in the process of being implemented, but the hurricanes of 2005 affected many of the programs and thus slowed full implementation.

Base year measurements were taken in 1999-2000. Overall, 89 percent of all completers passed all parts of the PRAXIS, while three universities had passage rates below 65 percent. A Blue Ribbon Commission composed of members from the state’s higher education sector, elementary and secondary sector, and business leaders was formed to develop an accountability program to increase passage rates of all completers, regardless of the university attended.

The commission found that Louisiana had a high number of uncertified teachers (approximately 15 percent), low passage rates on the PRAXIS, low number of teachers in math, science and special education, low graduate satisfaction in their teacher preparation programs and a low number of minorities completing the teacher preparation programs. The accountability system gives equal weighting to institutional performance (PRAXIS passage rates and satisfaction survey ratings by both the new teachers and their employers) and quantity of completers (total, minority and shortage areas). Based on the score received, institutions earn one of five ratings ranging from exemplary to low performing and either earn rewards or are required to take corrective actions. The rewards include public recognition and extra funding to provide professional development grants to faculty and/or fellowship funds for graduate students. Low-performing programs are required to take well-defined corrective actions steps, and if they fail to demonstrate positive changes, they will lose state approval for the teacher training program. To ensure the accountability program stays relevant, timelines for reviewing the program were established in the original plan.

In less than five years, outstanding results had been demonstrated. As of April 2005, most programs were

deemed exemplary and only one was classified at-risk in need of corrective action. In 2003-04, the passage rate on the PRAXIS for all completers had risen to 99 percent with the three formerly poor performing programs receiving 100 percent passage. The number of completers in teacher shortage areas had also increased significantly. Also, early value-added data show that new teachers from the redesigned programs seem to educate students at least as well as experienced teachers.

University of Louisiana System Performance Funding Initiative. Another successful performance funding initiative in Louisiana has been initiated by the University of Louisiana system (ULS). The ULS has set very specific system-wide and institutional performance goals. As the program has been developed, it has been redefined with the most recent goals being adopted in March 2008. The presidents of each institution and the system president agreed to three goals to be attained by 2012: generate 2,400 additional new graduates, including those in identified high-demand areas; reduce time to graduation from six to five years; and ensure the relevance of ULS graduates to the workforce by tracking and monitoring their performance and progress in the workforce. Formalization of individual institutional goals will be forthcoming. The initiative offers rewards through two mechanisms. First, each institution in the UL system contributes to a joint incentive funding pool held by the system. The pool is reallocated to the institutions based upon their achievement of performance goals. The 2007 reward pool was \$400,000, which was less than 0.1 percent of the system's total budget. In February 2008, performance funding rewards ranging from \$52,308 to \$46,154 were awarded to the UL institutions at the system's monthly board meeting. The change agent in this program is not believed to be the monies awarded; rather it is the recognition and publicity generated by the awards. Secondly, achievement of specific performance goals is a factor in determining annual presidential salary adjustments, including the system president.

BoR PROPOSED PERFORMANCE INCENTIVE COMPONENT

In its budget request for 2008-09, the BoR asked for an additional \$35.8 million, 3 percent of the total budget, to begin funding the performance incentive component of the funding formula. The Executive Budget currently only includes \$15 million for this incentive. The major principle for BoR's performance funding proposal is that it should "incent desired behavior." BoR intends not only to reward institutions that perform well as compared to their peers, but also institutions that show significant improvements from their base levels toward their goals. The preliminary criteria set for measuring success are three-fold: statewide,

system/sector-specific and institutional/mission-specific measures. Suggested statewide measures include increases in first-to-second year retention, number of degrees awarded and graduation rates. The system/sector-specific measures, in addition to the statewide measures, could include increased two-year to four-year transfers for community colleges, improvement in term-to-term retention for technical colleges and increase in production of degrees in high-demand fields for all institutions. Institutional/mission-specific measures could include increasing external research awards for research institutions and increasing workforce training and job placements for two-year and technical institutions.

Success on the measures has not been defined nor has it been decided when to award rewards. Currently, the BoR is working with the institutions to select the peers that would be used for comparison. Some of the criteria being discussed for choosing peers include missions, admission standards, student levels and demographics.

LESSONS TO BE LEARNED

Results from other systems show that measuring performance for success and granting rewards for exceptional performance can lead to innovative solutions. Rewards do not have to be large in proportion to overall campus budgets, but need to be well publicized to academic peers, prospective students, and citizens and business leaders of the region. All major stakeholders should be included in developing the program, and annual reviews by those stakeholders should be required to adjust the program to fit the current status of the state and/or the region. Investing stakeholders early in the decision-making process helps reduce resistance to implementation. Requiring periodic reviews sets an effective process to tweak the program to fit the state's ever-changing reality. Also, phasing in implementation seems to keep the program from being burdensome and allows participants time to focus systematically on specific goals and activities to achieve success for those goals.

Indicators should measure outcomes over which the institution has influence, so that administrators and faculty believe that their efforts can make a difference. The overall goals and, where necessary, acceptable intermediate goals need to be specified. Goals should be set by using success levels at peer institutions. Peer groups should not be identified solely by SREB categories but rather by role, scope and mission. Consideration should be given to using the same peers not only for comparing performance but also in setting tuition policy and core funding levels. Goals should be set at aspirational yet achievable levels. Timelines for meeting the goals should be included.

There also should be specific corrective actions for failing to achieve or make significant progress toward the goals in the time periods specified. This would not include budget cuts, but could include items such as restricting future tuition increases until success is achieved or the BoR requiring formal action plans, much like those required by the Teacher Preparation Accountability Program.

Rewards for achieving or making progress toward the goals should also be detailed. Once achieved, monetary rewards should be placed in the institution's general fund in order to allow institutions the freedom to reward activities they see as positive and forwarding their individual missions. To ensure money for performance rewards is recurring and not eliminated when budgets get tight or administrations change, many states have established trust funds and other ways to ensure the incentives are available when they are earned. Incentive funds are often viewed as extras in the state budget and as such are used as bargaining tools with little stability from year to year. Louisiana should ensure funding for its program is folded into the base funding for higher education and treated as being necessary for full formula funding. A separate incentive fund line item could be too tempting to trade away for another favored program.

Policymakers can use the experiences of other states in selecting indicators that most accurately measure the actions desired and are the least likely to result in unintended outcomes. For example, although retention is an appropriate goal, BoR's retention indicator (first-to-second year) may fail to show problem areas, because it generally takes up to the third year for students on academic probation from being removed from the count. First-to-third year retention may help identify problem areas. Just as BoR is currently proposing, some indicators should be applied at all levels (statewide, system-wide and per institution), yet others should be system and/or institution specific. Campus-specific measures allow mission differentiation and the needs of the local community needs to be recognized.

RECOMMENDATIONS FOR PERFORMANCE FUNDING

Recommendation No. 6: Develop a performance funding initiative that defines success for each institution and rewards those institutions that achieve and/or make significant progress toward success in a timely manner. Public recognition for success and consequences for failure should be key elements of the program.

Recommendation No. 7: Develop for each institution specific, mission-driven performance goals that are tied to the broad goals outlined in the master plan and adjusted as necessary to align higher education results with the state's and/or region's economic needs.

Recommendation No. 8: Identify a set of performance peers for each institution that are similar in mission, admission standards, student levels and demographics.

Recommendation No. 9: Design the performance funding initiative in a manner to insulate the funding from being easily cut so that the rewards can be relied upon to promote progress toward long-term goals.

CONCLUSION

Louisiana's current master plan for higher education is being updated. It is anticipated that the funding formula will also be updated. The current formula served the state well by simplifying the funding debate enough to show that Louisiana's higher education institutions had not achieved basic funding levels, at least compared to regional peers. However, the current formula does not target funding accurately enough or offer sufficient incentives to spur the state's economic progress.

Increased funding without increased success will not lead to progress. In order to move from a below-average state to an economic leader, Louisiana must achieve success levels in higher education well beyond current outcomes. The state's economic progress depends on more students from diverse population groups graduating from high school and completing some type of postsecondary education. To ensure that all higher education institutions are making significant strides not only in allowing access to higher education but also by enabling students to achieve success, a performance funding initiative should be built into the new funding formula and funded with a reliable source. In addition, a well-defined statewide strategic plan for workforce development and higher education should be established, and the basic funding formula should include a mechanism to ensure that institutions are advancing that plan.

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