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Agenda

Finance

Wednesday, December 11, 2024

11:25 AM

Claiborne Building, 1st Floor ▪ Thomas Jefferson Rooms A&B 1-136
1201 N. Third St. ▪ Baton Rouge, LA 70802

- I. Call to Order
- II. Roll Call
- III. Review and Update of Five-Year Funding Formula
- IV. 2024 Third Extraordinary Legislative Session Update
- V. Other Business
 - A. HR 169 Task Force Meeting Update
- VI. Adjournment

Committee Members: Blake R. David, Chair; Darren G. Mire, Vice Chair; Christian C. Creed; Phillip R. May Jr.; Gary N. Solomon Jr.; Collis B. Temple III; LCTC System Representative; LSU System Representative; SU System Representative; UL System Representative
Staff: Elizabeth Bentley-Smith, Interim Deputy Commissioner for Finance and Administration

AGENDA ITEM III.

Review and Update of the Five-Year Funding Formula Model

Through Constitutional [Art. 8, Sec. 5(D)(4)] and statutory [R.S. 17:3129.2(B)] authority, the Board of Regents (BOR) allocates State General Funds to the four postsecondary systems by way of an outcomes-based funding formula. In early 2024, the BOR, in partnership with all public higher education systems, initiated an agreed-upon five-year review of the state's higher education funding formula. As a part of the process, Regents and the systems have worked jointly and collaboratively using the current funding model to develop the next funding formula iteration. This represents the third time the BOR has conducted a review of the funding formula since the legislature enacted outcomes-based funding in 2014 and implemented it in Fiscal Year 2016–2017. The approved formula funding model may be implemented for the Fiscal Year 2025–2026 formula allocation, dependent upon the formula dollars appropriated in the 2025 Regular Legislative Session.

Charge: As charged by the Legislature and Constitution, the formula review is positioned to continue aligning fiscal policy for higher education to drive results at public institutions across the state. This review process assessed the impact of all components of Louisiana's current funding formula against the best funding formulas in the nation to identify suggestions for improvement.

Objective: To provide a cohesive and successful strategy, through collaboration with the system presidents, to allocate funding to two-year and four-year institutions by rewarding student success through progression, completion, and workforce development in alignment with the Higher Education Master Plan goal of 60% of all working-age adults in Louisiana holding a degree or high-value credential by 2030.

Challenge: An agreed-upon design for a funding allocation model presents a three-fold challenge:

- 1) State dollars for higher education, including formula funding, is estimated to be underfunded by \$700 million.
- 2) Incentives aligned with performance must be applied and measured for institutions within each sector while accounting for differing roles, scopes, and missions.
- 3) The model must reward performance appropriately to increase student and institutional success across all institutions while also abiding state law to protect institutions against drastic and rapid changes in funding levels.

Best and Promising Practices: The Board of Regents engaged experts from the National Center for Higher Education Management Systems (NCHEMS) to provide high-level research

identifying the best and most promising funding formula practices across the country. These experts helped inform Advisory Committee members of the impacts of proposed changes and how they compare to other states.

Advisory Committee membership: The work of developing a funding formula for postsecondary education is called for in state law but also remains essential as a collaborative process. The membership of the Advisory Committee included representation from each public system and their institutions (two from the system office and one from a member institution). All members discussed, advised, and recommended changes to the formula. In addition to three representatives from the Board of Regents, membership included 12 system representatives as noted below:

- System CFOs (four, one from each system)
- System CAOs (four, one from each system)
- System-appointed institutional representatives (four, one from a degree-granting institution within each system)

Review process assumptions: As part of the process, certain operating assumptions were made to establish the environment in which the formula exists:

- 1) Fundamentally, the formula is designed to allow for the distribution of state funding in support of student success and completion and is applied objectively to all public colleges and universities. It is not a tool used to govern but rather to allocate legislatively appropriated resources in pursuit of the state's higher education goals.
- 2) Advisory Committee members from the systems are expected to discuss thoughts and recommendations amongst themselves and share with system and institutional leadership. The communication of meeting discussions allows for better feedback and aids the implementation process.

Guiding principles: Any changes to the funding model should reflect the Higher Education Master Plan goal including, but not limited to:

- Focus on student access and success with an emphasis on underrepresented populations;
- Encourage educational attainment in high-demand and high-reward disciplines aligned to workforce needs;
- Recognize and reward distinctions in institutional missions and scopes; and
- Use clearly defined, currently available data to drive outcome improvements.

Proposed Funding Formula: The proposed formula has a much simpler and more straightforward structure, while also recognizing that one size does not fit all by using metrics that recognize and reward distinctions in institutional missions and scopes. The proposed formula includes a greater focus on completers; adds the Meauxmentum Framework through passage of gateway courses (English and math) as well as dual enrollment and work-based

learning; continues rewarding the student path to completion through progression, transfers, and graduate completers; incentivizes research as a stand-alone component; and avoids drastic shifts in funding among universities.

The existing formula places substantial weight on student enrollment. The proposed model moves away from enrollment and instead focuses on the completion of credentials especially in high demand areas. To accomplish this, the proposed formula uses a new methodology incorporating Louisiana Workforce Commission (LWC) labor market data to reward completion of credentials leading to occupations that are in greatest demand and provide high rewards. According to NCHEMS, this provides one of the most robust workforce calculations in the nation, while also increasing alignment to the stated Master Plan goal of 60% of all working-age adults in Louisiana holding a degree or high-value credential by 2030. The proposed formula introduces Meauxmentum metrics – a unique approach that recognizes and rewards institutions for the efforts that they make to implement Meauxmentum Framework strategies to increase student success and completion, such as early milestone success, transfer, dual enrollment, and work-based learning.

- Larger Base component than previous model (65%)
- Larger Outcomes component than previous model (35%)
- Increased emphasis on educational attainment in high-demand and high-reward disciplines aligned to workforce needs
- Focus on student success
- Maintains practice of not funding 100% online, out-of-state students and not funding associate's degree completers at universities
- Absorbs the Cost model from previous formula within Base and Outcomes

Additionally, the proposed Funding Formula model includes a stand-alone Research variable (four-year institutions) and Validated Skills and Learning (two-year institutions).

1) Research Focused

- The new formula includes an independent research component outside of the overall outcomes measure. While distinguishing progress in research funding is an important aspect of the current formula, it must be balanced with recognizing and rewarding progress toward the attainment goal.

2) Validated Skills and Learning (Short-term Credentials)

- The existing formula provides funding only for outcomes connected with “for-credit” programs. The proposed formula introduces a new methodology that will allow all validated skills and learning credentials (short-term credentials) at two-year institutions to be recognized. This component of the model has been developed to support the legislative request for workforce funding.

Timeline:Advisory Committee

The Advisory Committee began meeting at the end of March 2024, and the initial meetings laid the groundwork by providing a review of the present Louisiana funding formula, including outcome metrics and perspectives of national funding formula models and trends. The next set of meetings focused on revision ideas, additions, and alternative proposals focusing discussion on research, institutional local and non-credit instruction, dual enrollment, reverse transfers, workforce development, institutional tiers based on mission, rewarding transfers, revising the Cost component, and improving adult education outcomes.

Based on discussions, feedback for the proposed model was received during Advisory Committee meetings, along with surveys of individual workgroup members and by system.

Consensus feedback included:

- Focus on workforce by recognizing priority jobs
- Continue to incentivize student demographic completers
- Consider the missions of the institutions through metrics

Additional recommendations included:

- Maintain/strengthen Base component for stability
- Address research for more balanced funding to institutions
- Ensure the model reflects high-cost program areas and research facilities
- Create a balance between performance, production, and innovation to be nimble in meeting industry demands
- Account for all credentials

Collaboration – The proposed funding formula model has been developed through a collaborative Advisory Committee representing all public higher education systems (LSU, SU, ULS, and LCTCS). The Commissioner of Higher Education and system presidents have had ongoing discussions regarding the formula recommendations provided at the conclusion of the Advisory Committee process in November. This item is for information only and no vote will be taken. The proposed formula model will be considered by the Board of Regents at its January meeting.

AGENDA ITEM IV.

2024 Third Extraordinary Legislative Session Update

The Third Extraordinary Session ended on Friday, with the adopted tax bills now moving to Gov. Landry for signature. The legislative and budget staffs are diligently working through the nuances of the bills and amendments to determine the final fiscal impacts on state revenue. We are hopeful that the end result will be no cuts to higher education. However, because the Executive Budget will be submitted in February, a month before the proposed constitutional amendments are considered by the voters, we do expect the budget to propose some higher education budget cut.

It is important to note the full budget timeline, as the Revenue Estimating Conference will meet in December, the Executive Budget is being presented in February, and the Constitutional Amendments from the Tax Session will be voted on in late March after which we will have a better understanding of expected total state revenue and the subsequent potential budgetary impacts to higher education.

The approved tax package includes HB 7, which among other actions repealed the Education Excellence Fund (EEF), Kevin P. Reilly Louisiana Education Quality Trust Fund (LEQTF) and all subfunds, and Louisiana Quality Support Fund. The termination of the higher education subfund of the LEQTF, known as the Board of Regents Support Fund (BORSF), will lead to the loss of nearly \$20M per year in support to postsecondary institutions across the state. The BORSF currently provides competitive grants for academic enhancement (equipment, supplies, curricular advances, student support, and other enhancing activities) and faculty research and development projects, as well as matching for federal awards and permanent endowments for faculty recruitment and retention and student scholarships. The BORSF has made a significant contribution to academics, research, and workforce in Louisiana, with almost 100 patents filed because of this support and \$400M in external awards secured because of BORSF-supported research and development projects, a return of approximately \$10 for every \$1 expended. In addition, the fund has provided \$100M in match to more than \$800M in federal grants; while the direct return on these dollars is \$8 for every dollar matched, the real return in ongoing funded research activity is substantially higher. The BORSF is also the largest single “donor” to Louisiana higher education, over 37 years providing more than \$300M to match 3,650+ endowments at 42 institutions.

. It is the intent, per the Constitutional Amendment to be voted on in March, to use those trust funds’ principal balances and annual earnings within the current fiscal year – a combined total of \$1.96 billion – to pay off a portion of the Teacher’s Retirement System of Louisiana (TRSL) Unfunded Accrued Liability (UAL). This payment is expected to yield an estimated annual cost savings of about \$280 million, which reverts to State General Funds to be appropriated by the legislature to fully fund K-12 teacher and staff pay raises. It is our hope that higher education’s share of the savings, estimated as between \$70 and \$80 million, be reallocated to higher

education and continue to fund the BORSF initiatives as well as campus operating expenses. We have met with the administration to discuss meeting all existing financial obligations of the BORSF, which include matches for donor-initiated endowments, campus multi-year grants, and multi-year matching for federal awards.

AGENDA ITEM V.

Other Business: HR 169 Task Force Meeting Update

During the 2024 Regular Legislative Session, House Resolution 169 established a task force to study and examine various aspects of the optional retirement plans (ORPs) within the Teacher's Retirement System of Louisiana (TRSL) in relation to the unclassified staff and faculty recruitment and retention crisis faced by Louisiana's public postsecondary education institutions.

The Task Force is comprised of 15 total members who represent both TRSL and ORP participants in each of the four higher education systems, Board of Regents, and TRSL. The University of Louisiana, Southern University, and Louisiana State University Systems each appointed three participants, one of whom was a faculty member from a "hard-to-recruit research, scientific, or medical discipline." The Louisiana Community and Technical College System, the Board of Regents, and the Teachers' Retirement System of Louisiana each appointed two participants representing both TRSL and ORP membership. The Actuary for the Louisiana Legislative Auditor serves as an ex-officio member of the Task Force.

HR 169 directed eight responsibilities of the Task Force:

- 1) Provide ORP providers an opportunity to share industry best practices on individual savings and plan design.
- 2) How non pension retirement plans are managed in other states.
- 3) Advantages and disadvantages associated with selection of the ORP.
- 4) Information about what other states offer to their respective public postsecondary employees
- 5) The feasibility of allowing a participant in ORP to change their decision to participate in the ORP.
- 6) Employer contribution rates for the defined benefit pension plans and ORP and the benefits accrued to the members.
- 7) Differences, if any, in the definitions of "higher education" and "postsecondary education" as these terms are used in laws establishing institutions and interpreted by TRSL in the administration of retirement plans.
- 8) Other issues the task force believes the Legislature should be aware of.

During its initial meetings, the Task Force was provided an overview of national, with primary focus on southern states, ORP plans by both the National Association of State Retirement Administrators and vendors selected by TRSL to service Louisiana participants. Discussions focused on employer contribution calculations, related ORP costs and TRSL administrative fees, and the relationship between Social Security benefits and ORP plans for state government employees.

The Task Force has been charged to provide the legislature recommendations regarding any applicable changes to ORP plans. Recommendations under consideration include changing the timeframe after which such decisions are irrevocable to better align with tenure decisions (Act 109 of 2024 RLS), increasing TRSL's outreach to and engagement of ORP members, and providing additional financial training/information about ORP and defined benefit plans to system HR personnel and new hires considering their retirement options. The final meeting,

during which Task Force recommendations will be confirmed, is set for Wednesday, December 18, and the report is due to the Legislature no later than Friday, January 10, 2025. Though the meeting will take place after the submission deadline, staff will bring the Task Force report for Board review and approval on January 28th.