

**REPORT AND RECOMMENDATIONS OF THE GRAD
ACT REVIEW PANEL
(As Required by Act 741 of 2010)**

**Submitted to:
THE LOUISIANA BOARD OF REGENTS**

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Introduction

In 2010, the Louisiana Legislature enacted Act 741, the Louisiana Granting Resources and Autonomy for Resources for Diplomas Act (GRAD Act)(Appendix A). The GRAD Act provides for six-year performance agreements between the Louisiana Board of Regents (BoR) and Louisiana public postsecondary education systems and institutions. With the overall goal of rewarding performance for increasing accountability and efficiency among participating institutions, the Act grants colleges and universities increased autonomy and flexibility in exchange for a commitment to meet defined performance objectives.

The GRAD Act requires the BoR to annually monitor and report to the Legislature and the Governor each institution's progress toward meeting benchmarks and targets associated with the performance objectives. Additionally, the Act calls for the BoR to review GRAD Act during the end of each six-year agreement period, and, based in part on considerations of a review panel, recommend to the Joint Legislative Committee on the Budget whether the six-year performance agreements should be renewed.

In accordance with Act 741, the BoR sought appointments to the GRAD Act Review Panel. The twelve appointed members include one representative from each postsecondary education system, a representative appointed by the Board of Regents' Chair, a representative appointed by the Commissioner of Higher Education, two representatives selected by the Speaker of the House of Representatives, two selected by the President of the Senate and two representatives appointed by the Governor's office (Appendix B).

In October 2015, following receipt of panel appointments, the BoR held an initial meeting of the Review Panel. A subsequent meeting was held on November 9th. The final report of the GRAD Act Review Panel was submitted thereafter to the Board of Regents for its consideration.

This report (1) provides an overview of GRAD Act; (2) identifies issues which impacted GRAD Act implementation; and (3) includes the GRAD Act Review Panel's final conclusions and recommendations.

An Overview of the GRAD Act

The GRAD Act was passed by the Legislature, with the support of the Governor, in 2010 in response to concerns about retention, graduation and completion, within the context of rewarding performance. As designed, the Act included annual rewards for institutions reaching their pre-determined benchmarks and targets. These rewards included:

- (1) The limited ability to increase tuition and fee amounts up to ten percent based on the institution's proximity to its peers' average; and
- (2) The ability to earn various levels of operational autonomies.

The GRAD Act stipulated that institutions achieve specific, measurable performance objectives aimed at improving college retention, completion and meeting the state's current and future workforce and economic development needs. The four performance objectives identified in the GRAD Act are:

- (1) Student Success
- (2) Articulation and Transfer
- (3) Workforce and Economic Development
- (4) Institutional Efficiency and Accountability

In addition to the above, the GRAD Act allows "any additional performance objectives as determined by the Board of Regents," and further provides that "any performance objectives defined in the formula funding performance model adopted by the Board of Regents for Fiscal Year 2010-2011 shall be aligned with performance objectives defined in [the GRAD Act.]" See La. R.S. 17:3139.2.

BoR has consistently interpreted and implemented the ability to earn performance funding through alignment of the Regents' formula funding model and the performance objectives of the Grad Act in the following manner: In any particular year, fifteen percent of the funds allocated by BoR to the institutions through its funding formula, which is the portion BoR allocates based on an institution's performance, is withheld from institutions that fail the GRAD Act during the previous year. While BoR had always intended for this "performance funding" portion of the funding formula to be an added incentive for improved performance, the lack of adequate funding has led to institutions suffering the penalty for failing the GRAD Act without ever enjoying the benefits of being better-funded for improved performance. In other words, if an institution fails the GRAD Act, BoR withheld fifteen percent of the formula funding, but if an institution passed the GRAD Act, there were

never sufficient state funds to reward that institution with an additional fifteen percent for its performance. (Note: BoR adopted an intervention policy under which 75% of the 15% of performance funding would be released to the failing institution if it develops an improvement plan and demonstrates to BoR on a quarterly basis that it has met the goals of such improvement plan.)

There are performance elements and measures associated with each of the aforementioned objectives. Elements are the performance requirements stated in the GRAD Act law that correlate with each objective. Quantitative measures were negotiated and agreed upon by Regents, systems and institutions as a way to determine whether an institution was demonstrating satisfactory progress toward meeting the performance objectives. Measures were assigned by institution type and tied to the institution's specific role, scope and mission. The Regents, systems and institutions established baseline data, annual benchmarks (short-term) and 6-year targets (long-term) for each measure within the performance agreement.

In October of 2010, Louisiana public postsecondary education systems and institutions entered into the initial six-year GRAD Act performance agreements with the Board of Regents. As parties to the agreements, institutions annually report their progress on applicable elements and measures to their management boards and Regents. Regents monitors, reviews, scores and reports annually to the Legislature and Governor each institution's progress in meeting the four performance objectives.

In 2011, the Legislature amended the 2010 Act, specifically requiring successful attainment of the student success performance objective in order to pass GRAD Act, acknowledging that each of the other three were fundamentally aligned with the student success objective. This amendment, which altered the scoring of GRAD Act, occurred after initial benchmarks and targets had been established and performance agreements signed. As mentioned, prior to the amendment, an institution's success was based on the achievement of benchmarks and targets in support of the four performance objectives (student success, articulation and transfer, workforce and economic development, and institutional efficiency and accountability). The practical result of the 2011 amendments was that passage of GRAD Act became contingent solely upon passage of the student success performance objective rather than an overall passing score on the four objectives. Achievement of passing scores on the other three objectives could no longer offset falling short on the student success objective; thus, passing GRAD Act became more difficult.

Design vs. Implementation

At its inception, the GRAD Act was supported as a mechanism that would serve as an incentive to improve student outcomes, providing added revenue in exchange for greater accountability and efficiency. As mentioned, passing GRAD Act would grant institutions the mechanism to increase tuition, allow for operational autonomies and reward performance through the formula. However, in many of the years during the six-year agreement, tuition authority did not result in any increased revenues to the institution, due to a corresponding reduction in state funding. This practice of reducing state funding to offset any tuition increases, the so-called “tuition swap,” nullified any benefits of the tuition authority earned under the GRAD Act and actually penalized the institutions that earned such authority, for in practice, this was even more damaging than a one-to-one swap. On average, institutions only collect 75 to 80 cents on a dollar in tuition due to waivers, scholarships and non-collectibles. Therefore, in a tuition-for-general fund swap, institutions would actually lose funding by increasing tuition.

Another reward included in GRAD Act for performance was the ability to access certain operational autonomies. In theory, there were three levels of autonomies which institutions could seek approval to exercise based on performance. In practice, gaining these autonomies was problematic. Meeting the criteria was challenging but attainable. However, receiving approval for operational autonomies proved more difficult. During the six-year agreement, few institutions actually were approved to exercise the autonomies they had earned.

Finally, without adequate state funding, rewarding performance through the funding formula was not possible, as explained above. Instead of being deemed ineligible for additional performance funding by failing GRAD Act, institutions stood to lose state general funds. Failing institutions were asked to improve performance with even less state support, while institutions that passed the GRAD Act saw no additional benefits through the funding formula.

The challenges outlined above and the implications of budget cuts endured by campuses (i.e., elimination of faculty and staff positions, increase in class sizes, and reduction of courses and programs offered) made achieving GRAD Act benchmarks increasingly difficult. Institutions failing to achieve annual GRAD Act requirements did not merely lose out on a reward; they were, in essence, penalized. Thus, the penalties for failing the GRAD Act were steep, while the rewards for passing were non-existent.

Conclusions and Recommendations

Despite the unforeseen consequences mentioned above, the Review Panel does acknowledge the positive intentions of the GRAD Act as originally conceived. At its core, the goal of the Act was to incentivize institutional behavior to improve performance within a framework that promotes accountability. The Panel supports this goal and acknowledges that it should remain a priority for higher education, the legislature and the administration. However, the panel does not believe that the GRAD Act, as currently constructed, is the most effective mechanism to achieve that goal. The Panel contends that both the performance measures and rewards used to incentivize institutional behavior can be best addressed through means other than through GRAD Act. Therefore the Panel's recommendations will primarily focus on alternative methods to evaluate performance measures and provide incentives, particularly through the implementation of Act 462 of 2014 and the GRAD Act amendments in 2015, as more fully discussed below.

Act 462 of 2014 by Sen. Appel called for the development of “a comprehensive outcomes-based funding formula that ensures the equitable allocation of state funds to public postsecondary educational institutions, appropriately considers costs, places significant emphasis on student and institutional outcomes, and aligns with the state’s economic development and workforce needs.” The Review Panel notes the close correlation between the performance objective language in the GRAD Act (student success, workforce and economic development) and the expectations of the outcomes-based formula (significant emphasis on student ... outcomes, aligns with economic development and workforce needs). Additionally, Act 462 directly authorized the BoR to make recommendations for changes necessary to the GRAD Act in order to implement this new formula.

As originally constructed, the Grad Act sought improvements in four major areas: Student Success, Articulation and Transfer, Workforce and Economic Development, and Institutional Efficiency and Accountability. Under Act 462, retention, graduation and completion – the primary measures in the student success objective – will now be incentivized as part of the new outcomes-based formula under development.

Accordingly, the proposed formula also continues to place emphasis on key measures in the other three GRAD Act performance objectives. For example, there is a continued focus on articulation and transfer. Two-year colleges are incentivized for transferring students to four-year institutions; four-year institutions are rewarded for receiving and graduating transfer students; and institutions will receive credit through participation in cross-enrollment agreements at every level.

In direct response to workforce and economic development, measures such as time-to-degree, number of Pell and adult completers and graduates in four and five star majors are rewarded in the formula. Added incentives are incorporated to endorse efficiency and accountability for measures within each of the performance objectives.

As mentioned, at its inception, the GRAD Act was intended to provide added incentives in exchange for greater accountability and efficiency. Passing GRAD Act would grant institutions the authority to increase tuition, allow for operational autonomies and reward performance under the formula. However, declines in state funding and the resulting negative consequences did not allow for GRAD Act to be implemented as originally designed. Therefore, the Panel supports the incorporation of the GRAD Act performance elements and rewards into the proposed outcomes-based funding formula, revising the reward structure included in the original GRAD Act legislation.

Act 359 of the 2015 session took an initial step in amending the original GRAD Act reward structure by removing passage of GRAD Act as a condition for receiving operational autonomies, instead tying eligibility to clean financial audits. This amendment occurred in part due to the recognition that these autonomies are inherent in university operations nationwide and indicative of good sound business practices that lead to more effective and efficient operations. They should not be earned, but rather expected of sound higher education institution management.

Act 359 aligns with the Panel's view that the current reward structure of GRAD Act be redesigned to more effectively support Louisiana's public postsecondary education institutions in remaining competitive and increasing accountability.

Based on the analysis and findings outlined above, the GRAD Act Review Panel submits the following recommendations to the Louisiana Board of Regents regarding renewal of the six-year agreements and in the reward areas of tuition authority, operational autonomies and performance funding relative to the future of GRAD Act:

1. The six-year agreements not be renewed;
2. That postsecondary education be funded through a methodology that more appropriately considers both cost and performance;
3. The GRAD Act performance and accountability metrics (retention, progression, transfer, completion, time-to-degree, etc.) be incorporated in the implementation of a new outcomes-based funding formula;
4. The Board of Regents in consultation with the management boards develop a Tuition Policy for legislative approval to give management boards tuition authority within the parameters of the Regents' Tuition Policy;

5. Eligibility for operational autonomies, as amended by Act 359 of 2015, be reauthorized in a separate statute;
6. The Board of Regents shall annually report to the appropriate Legislative committees on the implementation of the funding methodology and the outcomes based funding formula including performance metrics for each institution, how much funding the formula allocates to each institution and how much each institution actually receives; and
7. The GRAD Act law be repealed.