

# LOUISIANA'S FLAGSHIP COALITION

## THE PLAN FOR THE FUTURE OF LSU *CONTROL PRICE AND MANAGE COSTS*

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12/13/10

### **We must not be here again.**

If there is any lesson in the current financial crisis that faces Louisiana State University, it is that enormous gains made over many years can be erased in a few months. All that LSU has achieved in the last two decades is jeopardized because the state does not have the capacity to support it. The solution lies in finding a way to bridge the University over the next several years, while putting in place a new system that reduces dependence on the state and allows LSU to be more responsible and accountable for its own destiny. This entails the University's ability to determine reasonable charges for excellence and to manage its costs to achieve maximum effectiveness.

This approach will ensure continued excellence. LSU is now a top-tier national university for the first time. It can advance even further in graduation rates, research productivity, and other goals set by the state while reducing its demands on the state's taxpayers.

### **LSU must be given the ability to control price and manage costs.**

The challenges of better managing the University are not new. As early as 1871, David F. Boyd, superintendent of LSU, lamented in the *LSU Annual Report* that funding was so unstable that it was impairing the University. "One whose income is uncertain and not under his control," he said, "cannot live as cheaply as another whose means are assured and always at hand." LSU can live more "cheaply" if the University has control over price and costs. LSU should not be treated like a state agency because it is not one. It is a research-extensive and student-focused institution of higher education competing in a national marketplace. LSU is an institution that generates approximately 75 percent of its total institutional budget of \$848 million from non-state sources. It is a Flagship University that aspires to compete with the great public institutions of America such as the University of Michigan and Penn State University, institutions that are state-funded and state-supervised but also have been empowered to be more entrepreneurial and innovative.

In return for price and cost flexibility, the people of Louisiana can expect higher performance. In the next decade, LSU's graduation rate will approach 70 percent and first-year retention rate will reach at least 87 percent, characteristics of the top public universities in America. In the same period, LSU will grow research productivity to more than \$200 million per year and become a much stronger partner with the state of Louisiana in its economic development efforts. The University will grow its endowment to over \$1 billion. Most importantly, with the ability to control price and manage costs, LSU's dependence on state appropriations could be set at a fixed appropriation beginning in FY 11-12 with annual adjustments only for inflationary change. A stable, consistent budget is a precursor to a better performing university. LSU will remain accountable and responsible to the state as the Flagship University while keeping the goal of serving the students and citizens of Louisiana as the highest priority.

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## BACKGROUND

The growth of the higher education system in Louisiana over the past century was based on bringing higher education to students through low tuition rates that encouraged students to enter college. The recent introduction of admission standards changed that dynamic. It gave greater weight to excellence. Students could access the system, but not every institution. While access was an issue of the past century, "access to quality" should be the goal for the next. This is essential if the state is to compete in a world where intellectual capital has become key to progress. Changes in the funding formula and limited tuition authority are positive steps, but less regulation and more enterprise are needed. Operating in a competitive environment the University will be more effective, productive, and responsive to the students and the state it serves. Michigan, Pennsylvania, Texas, North Carolina, Washington and many other states have had great success with more independent forms of higher education. The greatest flagships are the ones least regulated.

LSU took significant steps towards achieving greater control over its future when it released "The LSU Plan for Greater Impact on Louisiana" in March 2010. The Plan called for LSU to become more effective and efficient, to better focus efforts on recruiting and retaining students as well as define areas of opportunity in academic programs and research institutes, and to achieve some necessary levels of relief from state rules and procedures. In the nine months since the release of the Plan, the University has achieved over \$7.5 million in savings and new revenue from the Plan. This "Plan for the Future of LSU" will carry the University even further ahead.

## DETAILS

### I. Control Price

Consistent, stable funding is the bedrock of quality academic programs. Most American universities achieve that with a combination of state appropriations along with tuition and fees. LSU, held back by arguably the most restrictive funding model in the country, needs a financial approach comparable to those institutions. Its features would include a base state appropriation that would not grow beyond inflation as well as the authority for reasonable increases in tuition and fees to ensure the university is competitive. During these difficult times, some special bridging funding may be necessary, but the goal is for the university to become more self-sufficient. This approach also would recognize that disadvantaged students need financial help in order to attend LSU. As evidenced by the Pelican Promise, established to help financially needy students meet the total costs of attendance, the Flagship University is committed to serve the entire state with an affordable, high quality education.

### II. Manage Costs

While LSU needs to be able to price itself fairly in the marketplace, it also needs the ability to manage its costs effectively. Under the current arrangement, which imposes a large number of restrictions on the institution, LSU takes too long to construct buildings, is limited in its ability to secure the best prices on goods and services, and is constrained by personnel policies built for government bureaucracy, not competitive universities. The state, of course, would maintain oversight over the University, while LSU would have the ability to pass on cost savings to taxpayers.

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- A. Responsibility for Human Capital  
More than 75% of LSU's operating budget is invested in the most valuable asset – its faculty and staff. LSU would be responsible for its personnel management system including regulations, authorizations, classifications, hiring practices, staff composition and size, benefits, compensation, and employee relations.
  - B. Responsibility for Administrative Procedures  
LSU spends thousands of personnel hours and millions of dollars complying with hundreds of rules and procedures, with most of them established for state government rather than the distinctive needs of a research-extensive higher education institution like LSU. LSU would be responsible for procedures including, but not limited to: procurement, travel, fleet, contracts, information technology, capital projects, property control, risk management, insurance, and accounts payable.
- III. Outcomes
- A. Higher retention and graduation rates and more successful graduates.
  - B. Growth in research productivity and discoveries for the citizens of Louisiana.
  - C. Partnerships in local and state economic development projects and creating more jobs for Louisiana.
  - D. Larger endowment and more diverse support programs for students.
  - E. A comprehensive land, sea and space grant public institution for Louisiana that is ranked among the best public institutions in the country and stays that way.

**All of these things can be done. If they are, we will not be here again.**

## **SUMMARY**

### **OBJECTIVE #1: PROCUREMENT AND UNIVERSITY PROPERTY**

Savings/New Revenue: \$32 million; 18 positions

### **OBJECTIVE #2: FACILITIES**

Savings/New Revenue: \$5 million; 30 positions

### **OBJECTIVE #3: HUMAN RESOURCE MANAGEMENT**

Savings/New Revenue: \$21 million; 61 positions

### **OBJECTIVE #4: FINANCE AND BUDGET**

Savings/New Revenue: \$27 million; 6 positions

## **ALL OBJECTIVES – FIRST FIVE YEARS**

**Savings/New Revenue: \$85 million; 115 positions**

## **OBJECTIVE #1: PROCUREMENT AND UNIVERSITY PROPERTY**

Savings/New Revenue: \$32 million; 18 positions

### **SUMMARY**

The current operating model for procurement hobbles LSU. It is designed for a state government agency, not a high quality research university that needs to be entrepreneurial and quick on its feet to take advantage of opportunities. Under the current rules, LSU pays too much for beakers and wastes valuable time constructing buildings. LSU must have the ability to better manage procurement, University property, and risk. Greater flexibility in procurement will save money and time, and get better results.

### **ESTIMATED SAVINGS**

LSU projects a reduction of approximately 18 positions and an estimated savings of approximately \$32 million over the first 5 years.

### **SOLUTION**

Establishing more cost-effective procedures may be the best way to sum up the gains that would be realized in this area. To accomplish this initiative, LSU must have the ability to:

1. Be exempt from Louisiana Procurement Code and establish a uniform set of Procurement Rules for the University that:
  - Allows the use of Cooperative Agreements with “not-for-profit” cooperatives when agreements have been established pursuant to competitive bids or proposals.
  - Allows the use of federal General Services Agency (“GSA”) contracts.
  - Allows the use of strategic solution based Request for Proposals (RFPs) versus lowest bid solicitations when it is more advantageous for the University to do so.
  - Removes the requirement of newspaper advertising and substitutes with electronic notification.
  - Adopts the Model Procurement Code (MPC) created by the American Bar Association.
  - Allows for a strategic sourcing solution that will simplify procurement and payables processes, reduce staff, and diminish the need for a supply chain function.
  - Allows the use of electronic bidding and signatures.
  - Allows for travel arrangements to be made that best fit the needs for administrative, academic, and research travel.
  - Allows sole authority and responsibility for telecommunications systems and services.
  - Removes the requirement of approvals of the Office of Information Technology (OIT) for IT procurement if the purchases are in line with the LSU Flagship Information Technology Strategy (FITS).

- Eliminates the approval process with respect to IT strategic planning, project management, architecture, infrastructure, ongoing operations, and security.
  - Allows the University to participate in programs and services that enhance finance and budgeting efficiencies.
2. Establish a uniform set of Procurement Rules for Professional, Personal, and Consulting services in lieu of Chapter 16 of Title 39 of the Revised Statutes that allow the University to expeditiously process contracts.
  3. Be exempt from Louisiana Property Control Rules and Regulations and establish a uniform set of Property Management Rules that:
    - Eliminates the approval process of the Louisiana Property Assistance Agency for scrap or dismantling of property.
    - Increases the tagging threshold for property from \$1,000 to \$5,000 to coincide with GASB 35 level of depreciable capital assets for reporting.
    - Allows the University to utilize its property management system to assist in planning and managing its assets.
    - Allows retention of all proceeds by the University from the sale of recycling, scrap, and surplus property.
    - Determines the utilization mileage threshold of fleet that coincides with the determined use of the vehicle.
  4. Establish a risk management program that allows the institution to be exempt from any state insurance or risk management program governed by the state.
  5. Receive delegation for approval of all operating, income, or capital leases inclusive of University property and land.

## **OBJECTIVE #2: FACILITIES**

Savings/New Revenue: \$5 million; 30 positions

### **SUMMARY**

LSU will be more effective if the current operating model requiring Facility Planning and Control (FP&C) policy and oversight is changed to support the distinctive needs of a research-extensive and student-focused Flagship Institution. The University will be able to adopt its own policies, standards, and guidelines based on industry best practices and the needs of the academic and research community. This positions the University to streamline large capital projects and concentrate on deferred maintenance reductions. Flexibility allows LSU to assess educational, research, and recruitment trends and form strategic plans to position capital assets strategically, yielding the best advantage for achieving greatness.

### **ESTIMATED SAVINGS**

LSU projects a reduction of approximately 30 positions and an estimated savings of approximately \$5 million over the first 5 years.

### **SOLUTION**

Establishing more cost-effective procedures will be the best way to sum up the gains that would be realized in this area. To accomplish this initiative, LSU must have the ability to:

1. Be exempt from legislative and FP&C oversight as to conduct the following activities based on best practices of the facilities industry appropriate for the higher education environment:
  - Initiate cash and general fund capital projects without prior state approval for more effective response to the pace of student needs and enrollment growth saving thousands in interest accrued for unencumbered bond issues while waiting for third party oversight and approval.
  - Acquire real property without state approval when using general funds for assets such as South Campus, optimizing growth in favorable markets.
  - Improve land acquired with, or facilities constructed with, construction funded by revenue bonds, capital outlay, or other funding sources.
  - University controls the decision making process related to all property (e.g. facility can be razed or disposed of without lengthy state approvals).
  - Appointment by the Chancellor of a University building official who can issue certificates of occupancy for completed projects, working directly with the Office of State Fire Marshal and Department of Health and Hospitals.
  - Optimize strategic selection of services by eliminating the maximum dollar amount of competitive negotiation procurements.

- Allow rapid deployment of maintenance/renovation projects that exceed \$500,000, but do not have the complexity of new construction.

2. Administrative Synergies

- Will provide greater flexibility in contracting of noncore services or services that fluctuate in scope and allow contracts to be created and executed with greater speed and efficiency, allowing LSU expedite projects that impact the public sector.
- Competitive negotiation allows for the implementation of new technologies (e.g. Leed certified energy products) having no current equivalent creating a facility infrastructure suitable for a research-intensive University.
- Allow for the standardization of technologies for building systems to minimize management of change, required inventories, and repair time. This strategy, used by every major corporation, promotes rapid response to system outages, efficient maintenance programs, and minimizes disruption to operations.

## **OBJECTIVE #3: HUMAN RESOURCE MANAGEMENT**

Savings/New Revenue: \$21 million; 61 positions

### **SUMMARY**

LSU will be more effective if the University is not tied to the Civil Service System that fails to provide for the demands of a research-extensive and student-focused Flagship University. In addition, the System does not allow the University to adjust the staffing level to the labor needs of the rapidly changing, technology-driven higher education marketplace. Being exempt from the Civil Service System, pension regulations, and health insurance requirements will allow the University to employ a work force that is leaner and more highly skilled.

### **ESTIMATED SAVINGS**

LSU projects a reduction of approximately 61 positions and an estimated savings of approximately \$21 million over the first 5 years.

### **SOLUTION**

1. Be exempt from the Civil Service System.
  - Allows the aggressive use of positional broad banding and mixed duty positions.
  - Allows for the increase in experience and educational levels required for all positions.
  - Will allow for more timely reactions to economic market pressures insuring more effective retrenchment activities through more efficient lay-offs and reorganizations.
  - Allows for a more aggressive use of outsourcing in areas such as payroll, HR transactions, benefit administration, facilities maintenance, and other non-core activities.
  - Allows for the combination of units and positions to increase effectiveness while reducing costs.
  - Allows for reductions in workforce to be localized within individual departments through the avoidance of wide-scale “job bumping.”
  
2. Establish a uniform set of rules that more closely capture the behaviors necessary to run a premier research university.
  - Allows for the University to enact higher standards of behavior and productivity.
  - Allows for the University to require higher levels of education and skills attainment in the hiring and retention process.
  - Allows the University to more rapidly adapt to the demands of new and emerging technologies.

- Allows for the University to adapt its workforce to the educational mission of the institution.
- Allows the University to set higher standards in regard to attendance for employees.

3. Exemption from state pension and benefits systems.

- Allows future employees to have pension choices limited to a defined contribution.
- Allows broader design and self-management of health insurance.
- Provides employees with access to other insurance options that will provide the ability to opt out of the more expensive coverage levels.
- Creates opportunities to tailor coverage specifically to the LSU workforce, providing opportunities for future cost avoidance as well as improvements in coverage without increases in costs.

## **OBJECTIVE #4: FINANCE AND BUDGET**

Savings/New Revenue: \$27 million; 6 positions

### **SUMMARY**

LSU must have the authority to control price. With this authority, LSU is prepared to reduce State Appropriations by a modest amount. Under the current rules, LSU cannot effectively manage its investments or capital projects. Greater flexibility in these areas will generate additional revenue and save time.

### **ESTIMATED SAVINGS**

LSU projects a reduction of 6 positions, with an estimated savings of approximately \$2 million over the first 5 years. With the ability to manage investments without limitations the University could increase investment income by approximately \$25 million over the first 5 years.

### **SOLUTION**

1. Be granted the full authority to adjust fees so that the tuition and fees charged to attend LSU is equal to peer institutions.
2. Be exempt from the investment statute and establish a uniform set of investment procedures modeled after those used by the affiliated private foundations of the University.
3. Be exempt from the State capital outlay and deferred maintenance processes. In lieu, the University will receive a fixed sum of \$17 million per year for these purposes. This amount is the average amount per year the University has received in the last decade. This change:
  - Allows the University to manage the accounting and reporting for capital projects funded by revenue bonds and other funding sources. Having greater control/flexibility over administrative processes would allow LSU to minimize administrative costs.
  - Allows the University to determine the reserves to be set aside for the ongoing capital maintenance of new buildings and facilities rather than a set formula.
  - Allows the University to utilize capital funding for facilities that have the greatest impact to meet the changing needs for the advancement of the research and academic enterprise.
  - Allows the University to utilize capital funding for an internally developed cycle of facility upgrades.

Objective 4: Finance and Budget Worksheet  
DRAFT - 12/13/10

Flagship Fee	Fee Increase	
	<u>Semester Fee</u>	<u>Net Revenue (in millions)</u>
	\$100	\$5.2
	\$150	\$7.7
	\$200	\$10.3
	\$250	\$12.9
	\$300	\$15.5
	\$350	\$18.1
	\$400	\$20.7
	\$450	\$23.2
	\$500	\$25.8
	\$550	\$28.4
	\$600	\$31.0
	\$650	\$33.6
	\$700	\$36.2
	\$750	\$38.7

Notes:

1. This fee is not eligible to be funded by TOPS.
2. Includes the same "hardship" exemption as the existing Operational Fee.
3. Summer fee would be assessed on a pro-rata basis of the Semester Fee.
4. Enrollment is based on Fall 2010.