White Paper on Higher Education

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Executive Summary

Higher education has the potential to become a more substantial driver of Louisiana's economic development. First, however, bold political moves and tough policy choices must be made to break Louisiana's legacy of unorthodox funding and enrollment structure.

Compared to other southern states, Louisiana enrolls far more of its students in costlier four-year universities than in community and technical colleges. Louisiana has about 76% of its enrollments in four-year institutions compared to the southern average of about 56%. The result: greater cost, nearly the lowest college graduation rates in the South, a poor match with job opportunities and business needs, and a larger-than-necessary higher education funding deficit. Shifting enrollments from four-year institutions to community and technical colleges would lower the cost of fully funding higher education in the state, allowing for increases in the per-student funding levels at each institution.

The shift can be accomplished by enforcing tougher admission standards at the state's universities. This would help ensure student and institutional success by enrolling students in institutions that better match their academic preparedness. The resulting expansion of the community and technical college system would better prepare students to transfer to four-year programs or enter the job market. An expanded community and technical college system would also build the state's capacity to develop a modern workforce capable of meeting the demands of an increasingly global marketplace.

On average, Louisiana institutions receive only 72% of their formula funding targets; however, that funding is distributed inequitably ranging from as low as 59% to as high as 104%. Additionally, those funding targets are based on a formula that fails to account for much of the variation in instructional costs at different academic levels and in different subjects. Refining the funding formula would generate more accurate funding targets for use in estimating the state's higher education funding gap. Achieving full funding for all institutions based on a refined funding formula would eliminate the funding inequities currently built into the state's funding process.

State tuition policy limits the ability of system boards to raise tuition in the absence of adequate state funding. Similarly, the authority of the Board of Regents is limited to the extent that few reforms survive the process of seeking consensus among each of the system boards.

This is the first report in PAR's four-part white paper series to inform the issue debates of the 2003 gubernatorial and legislative campaigns. The white papers will address the topics of higher education, state finance, K-12 education, and governmental ethics/constitutional revisions.

A nationally competitive research university has been a critical element of economic development success stories in other states. Nationally competitive research universities attract hundreds of millions in federal research grants; create high wage jobs through technology transfer that strengthens industry clusters; keep and attract the best high school graduates; provide research facilities attractive to sophisticated growth companies; and improve the image of their home states. Louisiana's flagship university, Louisiana State University (LSU), is not a national leader and trails well behind the leading institutions in the South by most quality measures. Quality is strongly linked with funding, and LSU is only appropriated around 65% of its current funding target, which itself is set far below what would be necessary to propel the University to a nationally competitive level. Gradual funding increases and a commitment to quality could raise the University to a level of regional prominence within five to seven years and national competitiveness in 15 years.

With optimum restructuring of enrollments, redesign of governance responsibilities and moderate increases in state funding phased in over 10 years, Louisiana could maximize the potential of higher education to promote the state's economic development. The recommendations in this report are designed to more efficiently target Louisiana's higher education spending, achieve full funding for each institution (based on refined funding targets and enrollment levels, as well as new state funding), and upgrade LSU to the level of a nationally competitive flagship university.

Introduction

This report focuses on the role of higher education as a catalyst for economic development in Louisiana. The report examines Louisiana's public universities, community colleges and technical colleges, which represent the vast majority of current

PAR Recommendations

No. 1 Gradually restructure the overall enrollment mix from 76%/24% (four-year institutions vs. two-year institutions) to 60%/40% (closer to the southern average).

No. 2 Constitutionally grant the Board of Regents the authority necessary to develop and enforce a comprehensive design for public postsecondary education.

No. 3 Develop a new master plan for higher education that responds to state needs, job trends and student demand; mandates admission standards that will ensure high rates of student success; drives accountability by articulating institution-specific goals; and establishes specific role, scope and mission statements for each institution.

No. 4 Include in the enrollment counts for the funding formula only students admitted according to the Master Plan's admission standards framework.

No. 5 Return control of tuition rates to Louisiana's higher education management boards, with the caveat that tuition increases shall require legislative approval once an institution achieves the average tuition levels of its Southern Regional Education Board (SREB) peer institutions.

No. 6 Refine the existing approach for developing institutional funding targets by better incorporating the cost differences of varying academic disciplines and course levels.

No. 7 Commit to making LSU nationally competitive over the span of a 15-year period, largely by providing total funding per student (state contribution plus tuition) comparable to the country's leading public research universities.

state spending on postsecondary education, because the funding for these institutions is subject to the greatest level of debate. Separately funded public law, medical and veterinary schools and agricultural centers are excluded from this study. Also excluded are analyses of deferred maintenance needs, long-term capital outlay issues and the Louisiana Tuition Opportunity Program for Students (TOPS). While these all are important aspects to consider in the development of any system-wide reform effort, they are beyond the scope of this report. Rather, this report focuses on Louisiana's public two-year and four-year institutions as a starting place for a discussion of what needs to be done to further the role of higher education in Louisiana's economic development.

Higher Education and Economic Development

A carefully structured higher education system can nurture a progressive, informed and growth-oriented society capable of leaving behind historical deficiencies and improving the quality of life for all its citizens. From an economic development perspective, the impact of higher education is far-reaching, ranging from the development of talented college and university graduates prepared to contribute to the state's targeted industry clusters, to the training of community and technical college students who can fill critical skilled positions in business and industry around the state. In an era of increasing globalization, economic prosperity will accrue to those areas exhibiting the highest levels of human productivity, and higher education is the principal player in developing that productivity.

In addition, the state's colleges and regional universities prepare new cadres of teachers trained to educate Louisiana's children and offer business development assistance to facilitate new business creation and job growth. Louisiana's leading universities perform scientific, technical and medical research that contributes directly to the state's economy by attracting federal research grants and by transferring knowledge to the state's industries through formal and informal technology transfer. They also help keep some top students in-state and attract others from surrounding states. Finally, the state's postsecondary education system has a powerful impact on the overall image of Louisiana, which plays an important role in economic development.

As summarized in Table 1, the impact of higher education on the state's economy is vast, but it is limited to the extent that adequate funding is available for faculty and facilities; admission standards and program requirements are rigorous; and program offerings closely match state needs and job trends. In light of this reality, Louisiana's citizens, the legislature, the Board of Regents (BOR), other higher education leaders and the next governor should consider the following implications in setting priorities for the state's higher education system for the future:

- In an increasingly global economy, higher education likely is second only to K-12 education as the most important state-funded contributor to economic development, and therefore should become a top priority of the state in terms of its design, management and funding.
- In order to maximize individual economic mobility within the state, as well as to boost the state's total productivity (and thus economic prosperity), the state's higher education system should offer a full range of educational opportunities -- from widely available basic job skills training to university education of national caliber.
- Current and projected state needs and job opportunities should drive the mix of enrollments by curriculum (e.g., engineering or chemistry) and level (e.g., bachelor's or doctoral) within and among the institutions.
- Admission standards should ensure a reasonable chance of success for every admitted student. A high priority should be placed on the establishment (and toughening, where appropriate) of admission standards at each four-year institution.
- In order to secure quality faculty and facilities, each institution should, at a minimum, receive total funding per full-time equivalent (FTE) student (state dollars plus tuition) equivalent to its comparable regional peers.

TABLE 1
Primary Roles of Higher Education In State Economic Development

Role	Economic Development Product/Outcome	Key Drivers of Economic Outcomes
Intellectual Talent Development	• Highly qualified bachelor's graduates in many fields with strong analytical and communication skills • Highly qualified bachelor's, master's and Ph.D. graduates in scientific and technical fields important to state clusters (e.g., computer science and chemical engineering)	• Quality, breadth and size of instructional and research faculty • Rigor of academic programs • Level of admission standards • Distinction and size of student applicant pool • Adequacy of facilities, specialized equipment and student support services • Match between programs/graduates and primary state business sectors
Intellectual Talent Retention and Attraction	• Retention of many top students for college and/or graduate school (and some post-graduation retention) • In-migration (and some post-graduation retention) of gifted high school graduates and graduate students from other states and countries	
Workforce Development	• Ample supply of skilled labor for state's incumbent industries, as well as for emerging business sectors • Ample supply of prospective employees with basic job skills	• Match of program offerings with local business needs and job trends • Availability of programs • Quality of faculty and facilities
Scientific, Technical and Medical Research & Development	• Intellectual capital that generates new companies (i.e., startups) and/or is licensed to larger firms for commercialization • Federal and corporate research grants (i.e., new dollars into the state) • Industry-sponsored R&D of high quality that improves productivity and increases university resources	• Quality, breadth and size of research faculty and associated graduate student bodies in scientific, technical and medical disciplines important to state business sectors • Adequacy of facilities, specialized equipment and faculty support services
Technology Transfer	• Increased productivity and/or commercial viability of recipient firms in state • Licensing revenue to support university	• Quality of faculty • "Absorptive capacity" of region
Teacher Training	• Cadre of K-12 teachers well-prepared to educate tomorrow's workforce	• Quality of faculty and students in colleges of education • Rigor and design of education curricula • Competitive teacher salaries, working conditions and support systems
Research on Specific Issues of State Importance (e.g., Coastal Wetlands Erosion)	• Enhanced understanding of various state problems, possible solutions and related costs	• Quality of faculty in related areas • Availability of funds to support specific research projects
Business Development Assistance	• Improved entrepreneurial culture and capacity • Business startups that directly create jobs and contribute to local economy	• Quality of faculty in business and related areas • Incentives for faculty involvement • Funding and facilities for business incubators
Brand Building of State	• Perception of state as a progressive, sophisticated place in which to live and do business	• National reputation of institution(s) – high quality across the board and top 10 nationally in several academic disciplines (e.g., mechanical engineering)

- At each institutional level, academic and training programs should be sufficiently rigorous to match the demands of the local and increasingly global marketplace.
- Higher education and its economic development benefits do not operate in a vacuum; therefore, to maximize the economic impact of higher education, the state must also aggressively pursue improvements in other areas directly tied to economic development (e.g., K-12 education, tax reform and governmental ethics).

The Importance of Strategy

The essence of strategy is making choices. If Louisiana merely replicates what other states in the South have done, the state likely will not achieve better results. Moreover, because Louisiana is a relatively low-income state, it must stretch its dollars further to make even the same level of investments in education and other important economic development drivers as can other southern states. This means that higher education resources must be targeted, that not every college can become a comprehensive research university, and that the state must work toward a carefully designed higher education system in order to maximize the return on investments of existing and new funds.

Louisiana's Unorthodox Higher Education System

In Louisiana, neither the postsecondary education system as a whole nor its individual institutions are appropriated full funding according to their BOR funding targets, which are based on the funding levels at their southern peer institutions. The size of the full-funding shortfall, however, is subject to debate. Louisiana's higher education system may require a higher level of state spending to reach full funding, but strategic policy moves can restructure the system to lower the cost of getting there.

On a per capita basis, Table 2 shows that Louisiana has a postsecondary education funding shortfall of over $40 million, but on a per-FTE basis that shortfall grows to nearly $212 million. Table 2 also shows that of 15 Southern Regional Education Board (SREB) member states, Louisiana is eleventh in terms of spending per capita and last in terms of spending per FTE. These calculations analyze state and local spending including tuition and fee revenues in the southern higher education institutions excluding funding for health professions education.

Louisiana stands out among other southern states because it has more FTEs as a percentage of the state's total population. That is why the state's per capita spending is so much closer to the southern average than is its per-FTE spending. This report will focus on Louisiana's funding shortfall per FTE because the only way to ensure that the quality of the state's higher education improves is to adequately support the cost of educating each student in the system. While a funding analysis on a per capita basis offers a measurement of taxpayer effort, it fails to consider the cost of effectively educating the state's unique student body.

The implied funding gaps in Table 2 are less than the $260 million gap the BOR estimates for the state's public colleges and universities. The reason for the BOR's high price tag for postsecondary education is that the Louisiana student body is enrolled in an inefficient, expensive way.

The BOR estimates its funding requirements based on the number of FTEs at each institution. The FTE calculation for each institution is based on the number of credit hours provided annually. A single FTE can represent several part-time students. Not only does Louisiana have more FTEs per capita than other southern states, but the state also has an unorthodox enrollment mix between four-year and two-year institutions. The enrollment mix is heavily weighted toward the more expensive four-year universities. Other states enroll a greater percentage of their student bodies in less expensive community and technical colleges.

The four-year/two-year ratio, or enrollment mix, in Louisiana is 76%/24%, whereas the southern average ratio is 56%/ 44%. This leads to a

much more expensive system to fund because state costs per student for four-year colleges and universities are on the order of 20-50% higher than the costs for community and technical colleges. The enrollment mixes of the southern states are shown in Table 3.

The state's unorthodox enrollment mix is also troubling because of its mismatch with current and projected job trends and business needs. Approximately two-thirds of all new jobs in the next few decades will requiwre more training than high school but less than a four-year college degree. Good community and technical college systems fill this void by providing accessible, affordable access to job skills training for any citizen who wants a good job. Louisiana's higher education system, with its heavy over-reliance on four-year institutions, has deprived too many citizens of good jobs and has left our workforce with critical skill gaps in multiple areas. Too many high school graduates have been pushed into college programs for which they were unprepared, when they could have instead attended community or technical college programs that would have equipped them for good jobs at a lower cost to themselves and the state. The state's low college graduation rates are proof of this point.

Louisiana's low six-year graduation rate at four-year institutions, a commonly accepted measure of institutional performance, also demonstrates a large discrepancy between Louisiana and the southern average. The graduation rate is a measure of the portion of a freshmen class that graduates within six years of beginning college. Louisiana's graduation rate for the 1995 freshman class is 34% compared to the southern average of 48%, indicating a poor match of students to degree programs largely caused by too lenient admission standards. The 34% graduation rate, while still too low, shows improvement over even lower rates of previous years. These low graduation rates suggest, at a minimum, that too many tax dollars are squandered on students who ultimately fail out or drop out and many students are being admitted to schools when they are not qualified or ready to succeed.

TABLE 2
State and Local Postsecondary Spending In the South, 2001-2002[1,2]

State	Spending Per Capita[3] ($)	Rank	Spending Per FTE[4] ($)	Rank
Alabama	192	9	5,085	13
Arkansas	191	10	6,055	8
Florida	145	15	5,130	12
Georgia	200	8	6,174	6
Kentucky	214	4	6,813	2
Louisiana	**186**	**11**	**4,792**	**15**
Maryland	238	2	8,908	1
Mississippi	219	3	5,834	9
North Carolina	246	1	6,186	5
Oklahoma	207	6	6,132	7
South Carolina	184	12	5,814	10
Tennessee	150	14	5,641	11
Texas	209	5	6,314	4
Virginia	203	7	6,470	3
West Virginia	171	13	4,937	14
Weighted Average	**195**		**6,014**	
Louisiana as a Percent of the Average	**95%**		**80%**	
Total Louisiana Spending to Match Southern Average	**870,970,000**		**1,042,435,000**	
Current Actual Spending	**830,631,000**		**830,631,000**	
Implied Surplus/(Deficit)	**(40,339,000)**		**(211,804,000)**	

1 Spending data includes: state and local funding for general-purpose operating appropriations for instruction, research and public service including law schools and educational special-purpose funds for research experiment stations and institutes, agricultural centers and other non-health professions education functions. Funding for health professions education is *excluded*. Net tuition and fee revenues are *excluded* from funding totals. **SOURCE:** Southern Regional Education Board (SREB) - www.sreb.org.

2 Data from Delaware, the 16th SREB-member state, is unavailable.

3 2001 population data from the U.S. Census Bureau.

4 Full-time equivalent student (FTE) data is from the SREB. FTE data for health professions education is unavailable.

NOTE: Health professions education is excluded from the spending data in order to compare the per-FTE spending data across states. An analysis of spending per capita when health professions education is *included* shows that Louisiana spends about $4 million above the southern average.

TABLE 3
Public Postsecondary FTE Enrollment Mix In the Southern States, 2001-02

State	Public Postsecondary Enrollment[1] (000 FTEs)			Percentage of FTE's by Institution Type	
	Total	Four-Year	Two-Year[2]	Four-Year	Two-Year[2]
Alabama	168,867	106,910	61,958	63%	37%
Arkansas	84,939	56,274	28,665	66%	34%
Florida	464,103	205,958	258,145	44%	56%
Georgia	271,972	143,517	128,455	53%	47%
Kentucky	127,568	87,480	40,088	69%	31%
Louisiana	**173,331**	**132,335**	**40,996**	**76%**	**24%**
Maryland	143,462	83,558	59,905	58%	42%
Mississippi	107,110	57,738	49,372	54%	46%
North Carolina	325,160	145,747	179,413	45%	55%
Oklahoma	116,638	77,854	38,783	67%	33%
South Carolina	128,780	72,167	56,613	56%	44%
Tennessee	152,975	103,298	49,677	68%	32%
Texas	705,719	361,863	343,856	51%	49%
Virginia	225,461	140,498	84,963	62%	38%
West Virginia	62,463	56,273	6,191	90%	10%
Weighted Average				**56%**	**44%**

[1]SREB Data Library (www.sreb.org); includes out-of-state students
[2] Includes community and technical colleges

Cost-efficient Redesign

Reforming the system in an effort to achieve an enrollment mix that more closely mirrors that of the southern average would lower the cost of educating the state's citizens on an FTE basis, while dramatically improving student success rates. Such a reform would require an enrollment shift from four-year institutions to two-year institutions.

Recommendation No. 1: Gradually restructure the overall enrollment mix from 76%/24% (four-year institutions vs. two-year institutions) to 60%/40% (closer to the southern average).

Although the state's community college system currently has nowhere near the capacity to absorb such an enrollment shift, it is possible that no new classrooms would need to be immediately built to accommodate the proposed increase in two-year enrollments. BOR data from 2001 shows that, by most measures, the classroom capacity on each four-year campus is underutilized with few exceptions. The available existing classroom space could be used to absorb the increase in two-year enrollments resulting from the proposed enrollment shift.

Two-year college programs could be established on the campuses of the four-year universities as separate colleges or as extensions of existing community colleges. Thus, the shift should result in a more efficient use of existing campus buildings on both two- and four-year campuses. The Louisiana Community and Technical College System (LCTCS) recently announced plans to operate a Delta Community College on the University of Louisiana at Monroe campus. Technical and

community colleges would retain their open admission policies even if located on four-year campuses.

The enrollment shift will allow the LCTCS to fulfill its critical role in the economic development of the state. LCTCS consists of seven community colleges and a single, statewide technical and vocational education institution composed of 42 technical college campuses. Many of the campuses in this system are only just emerging as the workforce development and skill trainers that they need to become in order to drive the state's economy. They are, however, already in growth mode and have been rising to meet the challenge of increased enrollments in recent years since the establishment of admission standards at many four-year institutions.

Louisiana has historically relied on its less complex four-year institutions to fill the role that community colleges in other states fill. This has been a major contributing factor to the high cost of educating Louisiana's student body. Cost savings resulting from the enrollment shift can only be generated by enrollment decreases in the four-year programs. Those decreases will require careful, disciplined management on the part of institutional administrators as tuition revenues will decline for some time (e.g., some instructors will have to be laid off as the number of class sections declines). However, in the interest of creating a system that the state can afford to fully fund at a level comparable to its southern peers, quality must be chosen over quantity.

No students would be turned away from higher education. On the contrary, those who previously would have attended a four-year university without adequate preparation will first start in a community college and can transfer at an appropriate point if they perform adequately. This would pose a lower economic burden for both the students and state taxpayers. Additionally, some students may elect to pursue technical college programs, which they might not have previously considered.

The shift could be accomplished through the implementation of toughened admissions standards. Fortunately, the BOR has already initiated the toughening of admission standards with its new Admissions Criteria Framework in the Master Plan for Higher Education: 2001. Unfortunately, the Master Plan also calls for an overall increase in enrollment levels, with no explanation of how that increase might be funded.

Higher Education Governance

Perhaps the reason that the BOR aims to increase both quality and quantity with no indication that the state plans to increase funding is that it does not have the authority to set more realistic goals. The system cannot afford to grow without additional funding. But, the BOR does not have the authority to either prevent growth or mandate contraction at the institutional level. Tough but necessary reforms, such as the enrollment shift, must be made in order to reshape higher education in Louisiana so that it is a more affordable, higher quality enterprise. However, to write any reforms into the master plan the BOR must reach consensus among all institutions within each of the four governing systems that the BOR coordinates.

The current *Master Plan* is evidence of the fact that the BOR's lack of authority results in watered-down reform efforts. The current plan sets system-wide goals and objectives mandating increases in overall enrollment, minority enrollment, graduation rates, freshmen retention rates, accreditation of programs, student satisfaction levels and granting of degrees in education. While all are important indicators of a successful system, each goal and objective needs to be individually set for each *institution*. Without institution-specific goals, there is no accountability at the level where it counts most.

The current plan also offers only generalized, largely interchangeable role, scope and mission statements for each institution, with no analysis of their roles in the state's economic and workforce development. Role, scope and mission statements should be tied to the state's workforce needs. They should carefully delineate the responsibility for graduate education that each institution should bear, and should justify or consolidate duplicate programs as necessary for the good of the state as a

whole. As a politically negotiated document, the master plan does not reflect the bold strategy the BOR needs to adopt to upgrade higher education in Louisiana.

The next master plan of the BOR could be used as a tool to strategically direct the priorities of each public college and university within Louisiana. But, in order for the BOR to mandate the necessary changes, it must first be given the authority to do so. The state constitution requires the BOR to formulate and make timely revision of a master plan for postsecondary education. The plan is to include, at a minimum, a formula for equitable distribution of funds among the institutions and a mission statement for each institution in the system. However, system-wide restructuring and improvement requires clear leadership authority and the establishment of a strategic document that mandates change at a far more detailed level than that.

The constitution does not grant sufficient leadership authority to the BOR. Rather, it limits the powers of the BOR to such an extent that many of the critical changes that need to be made must be approved and accepted by all of the system boards before the BOR can mandate their implementation. The BOR has the power to revise or eliminate existing degree programs and departments of instruction, and to approve, disapprove or modify proposed programs and departments. These powers are granted free of any requirement for legislative approval of decisions. A two-thirds vote of the Legislature is required, however, for the BOR to exercise its power to create new institutions, merge institutions, create another management board or transfer institutions from one board to another. The constitution further states that all management powers not specifically vested to the BOR are reserved for the individual boards of supervisors.

The four system boards (Board of Supervisors for the University of Louisiana system, Board of Supervisors for the Louisiana State University and A&M College, Board of Supervisors of Southern University and A&M College and Board of Supervisors for Community and Technical Colleges) have broad "supervision and management" authority over the institutions within their systems. Enrollment levels, graduate/undergraduate student ratios, tuition levels and admission standards could each be interpreted as management decisions that are left to the system boards to make.

Recommendation No. 2: Constitutionally grant the Board of Regents the authority necessary to develop and enforce a comprehensive design for public postsecondary education.

To more efficiently stretch Louisiana's higher education dollars and increase student success rates, enrollments need to be shifted from four-year to community and technical colleges. Unless each institution does its part to accomplish the shift, savings from a reformed system will not be realized. Unless those savings are realized, the per-FTE funding levels at each institution cannot be raised. Clearly, a single authority is necessary to manage the shift.

The specific language granting the BOR its new authority should be developed according to the best practices modeled by other states with a strong, central higher education governing authority. The roles of Louisiana's system management boards would need to be adjusted accordingly.

The Next Master Plan

Given proper authority to mandate change as needed, the BOR can more effectively and definitively initiate the reforms necessary to improve the state of Louisiana's higher education system. The next master plan should define each institution's role as it relates to the state's economic development.

Recommendation No. 3: Develop a new master plan for higher education that responds to state needs, job trends and student demand; mandates admission standards that will ensure high rates of student success; drives accountability by articulating institution-specific goals; and establishes specific role, scope and mission statements for each institution.

An understanding of state needs and job trends should inform major policy choices about higher education, including, at a minimum, enrollment mix, program offerings and locations, extent of high cost program duplication (e.g., engineering or architecture) and funding at the state and institutional level. Defining the economy's needs with respect to higher education is a critical first step in ensuring that Louisiana's higher education system maximizes its economic development impact.

The BOR's next master plan should assemble carefully drawn institution-specific goals and objectives with measurable indicators so that each administration can set out to fulfill its role as part of a whole. Each institution's role, then, must be defined in terms of regional and statewide workforce and economic needs. The responsibility for graduate education should be carefully delineated. Duplicate programs should be justified and in some cases consolidated. The state's higher education dollars cannot continue to be spread out as thinly as they are now if excellence is to be achieved.

Admission Standards

In spite of its leadership obstacles, the BOR has negotiated the new Admissions Criteria Framework into the Master Plan, which presents for the first time a bold attempt to upgrade higher education in Louisiana by formulating minimum admission standards to be implemented at all four-year universities.

The Master Plan establishes three levels of selective admissions criteria and one open admissions standard. The Admissions Criteria Framework assumes the specialized schools (law, medicine, etc.) will continue to set their own standards for entrance and that the two-year schools will be the only open-admissions postsecondary institutions. All four-year institutions eventually will have selective admissions-the earliest for some may be 2005, the deadline set in the Master Plan.

The framework, which assigns minimum admissions criteria titled Selective I, II and III, provides basic criteria that the institutions can exceed. The three selective admissions levels require completion of the Regents' high school curriculum (TOPS curriculum) and one of a minimum high school GPA, ACT score or class rank, with Selective I admissions being the toughest to meet. A 15% set-aside is provided at each institution for students who can not meet the admissions criteria.

Setting appropriate admission standards at all institutions is critical to ensuring that student and taxpayer dollars are productively invested and that all admitted students have a reasonable chance of success. While PAR has not thoroughly analyzed whether the proposed admission standards framework is sufficiently rigorous, the most critical issue at this point is that the admission standards are fully implemented at each institution. To encourage compliance, institutional funding could be tied to enrollment counts that only include students who meet the admission criteria.

Recommendation No. 4: Include in the enrollment counts for the funding formula only students admitted according to the Master Plan's admission standards framework.

In the long run, imposition of the new standards should lead to an enrollment shift from four-year campuses to community and technical colleges and increased graduation and retention rates. The institutions apparently have agreed to the admissions framework, so, in effect, the BOR has negotiated a roundabout way toward the enrollment shift without having the authority to mandate it. However, the Master Plan contradicts itself in the sense that it calls for both increased admission standards and a system-wide increase in enrollment levels - with no explanation of how the increased enrollments might be funded or how they might be achieved under the new admission standards. Such sidestepping demonstrates the conflicting strategies that result from the constitutional fragmentation of higher education governance powers.

Tuition Policy

Institutional governing boards currently do not have the power to set their own tuition levels. Louisiana made a break with many other states sev-

eral years ago when a new constitutional provision required a two-thirds vote of the Legislature to approve any fee increases, including tuition at state universities. As a result, not only do state lawmakers under-fund higher education relative to other southern states, but they do not allow institutions to make up the difference through tuition. In other words, the Legislature is mandating inadequate levels of funding at many institutions. This situation was only partially mitigated recently when the Legislature authorized the boards to adopt tuition increases of up to 3% per year subject to the approval of the Joint Budget Committee; however, that authority expires in 2005.

Recommendation No. 5: Return control of tuition rates to Louisiana's higher education management boards, with the caveat that tuition increases shall require legislative approval once an institution achieves the average tuition levels of its SREB peer institutions.

Until Louisiana's institutions of higher education are funded at or near the southern average for their respective comparable peer institutions, their management boards should be allowed to set appropriate tuition levels. The current policy of allowing increases of up to 3% per year subject to the approval of the Joint Budget Committee is insufficient.

Implication for TOPS

Assuming state leaders allow more flexibility in adjusting tuition levels, TOPS policies will have to be revised to prevent the tuition increases from being absorbed by the state indirectly. As TOPS is redefined, it might be phased into more of a needs- and/or merit-based scholarship program. Full analysis of the cost benefits of the TOPS program is beyond the scope of this report, but an examination of TOPS funding should be a substantial component of any comprehensive higher education funding reform plan.

How Funding Is Determined

Formula Funding

The process used to ration higher education dollars among the various schools and programs has important implications for the economic development of the state. The financing of postsecondary education in Louisiana is a highly complex and politically charged endeavor. Moreover, the amount of money involved is substantial. Not including TOPS and self-generated funding such as tuition revenue, grants, contracts and endowment income, the state spends about $1 billion per year on its entire postsecondary education enterprise.

Louisiana uses a funding formula to determine the amount each campus should receive each year. In line with current national and regional trends, formula funding theoretically offers the state a way to distribute funds from a rational and analytical perspective. The formula establishes per-FTE funding rates for each institution based on the funding levels of their regional peers. The formula then adjusts the peer-based FTE funding rates to reflect cost variations at each institution to arrive at a funding target rate. The funding target is a dollar figure that should cover the expenses of educating each FTE at that institution. The level of courses and type of programs provided are the major factors that influence each institution's cost of providing various types of education to its students.

Louisiana's Formula: Adequacy and Equity

Louisiana's funding formula, most recently revised in 1999, falls short of meeting its goals of providing an adequate and equitable distribution of state higher education dollars. An examination of the state's 2001-02 funding for public postsecondary institutions, excluding the specialized and professional schools (i.e., law, medicine, veterinary science and agriculture), shows that the state is only

appropriating 72% of the total that the current funding formula suggests the system needs. That shortfall leaves the higher education system under-funded by nearly $260 million. This amount, however, is based on a flawed method of deriving funding targets. Several reforms need to be made to the funding formula in order to present a more realistic picture of how much more funding the system needs to bring it in line with its southern peers.

In terms of adequacy at the institutional level, the formula fails to sufficiently adjust funding targets for cost factors such as student level (i.e., undergraduate vs. graduate) or program type (i.e., engineering vs. English). Considering only student level, for example, upper division courses (i.e., those for juniors and seniors) can be 25-100% more expensive, on a credit hour basis, than lower division courses (i.e., those for freshmen and sophomores) in the same academic discipline. Similarly, doctoral courses are often over five times as expensive to deliver as undergraduate courses. Citing the common example of liberal arts, the Texas Higher Education Coordinating Board (THECB) estimates that an upper division student is about twice as expensive as a lower division student, a masters student is about four times as much, and a doctoral student is about 12 times as much. These cost differences reflect a number of influencing factors including class size (higher level courses tend to be much smaller than lower level ones) and seniority of faculty (higher level courses are more often taught by tenured faculty).

TABLE 4
Formula Targets vs. Formula Appropriation (FY 2001-2002)

Institution	SREB Classification	Three-year Average Enrollment[1] (FTEs)	Formula Targets		Formula Allocation		Formula Implementation Rate[5]
			Funding Target[1,2] ($/FTE)	Total Funding Target[3] ($millions)	Funding Allocation[4] ($/FTE)	Total Funding Allocation[1] ($millions)	
LSU A&M	4-YR - 1	29,279	7,537	220.7	4,928	144.3	65%
ULL	4-YR - 2	14,201	5,770	81.9	4,010	56.9	69%
UNO	4-YR - 2	12,759	5,857	74.7	3,927	50.1	67%
LA TECH	4-YR - 3	9,698	5,512	53.5	4,054	39.3	74%
SOUTHERN A&M	4-YR - 3	8,919	5,404	48.2	4,420	39.4	82%
ULM	4-YR - 3	9,106	5,566	50.7	4,327	39.4	78%
LSU - S	4-YR - 4&5	3,159	5,046	15.9	3,769	11.9	75%
GRAMBLING	4-YR - 4&5	4,601	5,278	24.3	5,027	23.1	95%
MCNEESE	4-YR - 4&5	6,933	5,149	35.7	3,517	24.4	68%
NICHOLLS	4-YR - 4&5	6,614	5,149	34.1	3,398	22.5	66%
NORTHWESTERN	4-YR - 4&5	8,549	5,330	45.6	3,150	26.9	59%
SUNO	4-YR - 4&5	3,566	5,329	19.0	3,497	12.5	66%
SOUTHEASTERN	4-YR - 4&5	13,128	5,277	69.3	3,195	41.9	61%
BATON ROUGE CC	2-YR - 1	1,977	4,162	8.2	3,353	6.6	81%
BOSSIER PARISH CC	2-YR - 1	2,645	4,162	11.0	3,542	9.4	85%
DELGADO CC	2-YR - 1	9,037	4,287	38.7	2,901	26.2	68%
NUNEZ CC	2-YR - 1	1,327	4,162	5.5	3,199	4.2	77%
RIVER PARISHES CC	2-YR - 1	370	4,162	1.5	4,278	1.6	103%
SOUTH LOUISIANA CC	2-YR - 1	447	4,162	1.9	3,751	1.7	90%
LSU - A	2-YR - 1	1,629	4,266	6.9	4,070	6.6	95%
LSU - E	2-YR - 1	2,058	4,162	8.6	2,649	5.5	64%
SOUTHERN - SHREVE	2-YR - 1	1,129	4,412	5.0	3,925	4.4	89%
DELTA	2-YR - 1	361	4,162	1.5	3,893	1.4	94%
LA TECHNICAL COLLEGE	2-YR - 2	16,622	4,542	75.5	4,708	78.3	104%
TOTAL				938		679	72%

1 Data from Board of Regents.
2 Represents adjusted SREB average for similar institutions.
3 Total state funding requirement according to the funding formula (three-year average enrollment times funding target/FTE); excludes tuition.
4 Calculated (total funding allocation divided by three-year average FTEs).
5 Actual formula allocation divided by formula target.

Similarly, costs of different academic disciplines vary dramatically. For example, the THECB estimates that a typical lower level engineering course is about three times as expensive as a lower level course in liberal arts. These cost differences reflect a number of influencing factors including the differences in faculty salaries for various curriculums (e.g., engineering professors are typically much more expensive than those in liberal arts), as well as cost differences in laboratory space, equipment needs and class sizes.

The formula also fails to adjust funding targets for the varying levels of tuition each institution collects, which can greatly affect the total funding available to each institution. This can be highly misleading because tuition rates vary greatly among states, as well as among similar and dissimilar institutions in the same state.

In terms of adequacy at the statewide level, the current funding formula provides an approximate funding target for overall state funding of higher education. However, that overall funding target is never fully met, leaving the BOR to distribute only partial funding among its institutions. The funding distribution method leads to inadequate dollars being inequitably distributed.

The resulting system-wide inequity, with full funding actually allocated ranging from 59% to 104%, is shown in Table 4. The system average of full funding actually allocated is 72%.

In practice, the primary objective of funding higher education has been to protect the prior funding level of each institution. Every year, each institution begins with its previous year's funding level and any changes are made only to increase funding, never to decrease it - even to reflect enrollment decreases. So, actually the formula is only used as a basis for distributing new money. Fortunately, once full funding is achieved with each institution receiving its formula-derived target funding level, the matter of equitable funding distribution will be moot.

Recommendation No. 6: Refine the existing approach for developing institutional funding targets by better incorporating the cost differences of varying academic disciplines and course levels.

Accurate funding targets would contribute to more efficient spending of the state's higher education dollars, and would ensure that institutional incentives are not distorted by a formula that essentially treats all courses of study alike despite their highly differentiated costs. The formula revision should establish funding targets that more accurately reflect the amount each institution requires to educate its unique student body. The combination of accurate funding targets and a strategic enrollment shift would result in more adequate and equitable funding for each institution in the state.

The Need for a Nationally Competitive Research University

The state will not capture the full range of economic development benefits from higher education without a nationally competitive research university. Louisiana will have to make tough choices to get there. To simply spread resources around in an effort to apply gains equally to each institution, Louisiana would ensure that it progresses at a rate similar to those states adopting that same approach - Mississippi, Alabama and Arkansas - which is to say, the state would continue to fall behind.

As modeled by more prosperous states, one of the critical pillars of a successful state-level economic development strategy is building at least one nationally competitive public research university. The economic benefits of accomplishing this goal would be far-reaching. The University's faculty and graduate research would be of the highest caliber, ultimately attracting more substantial corporate investment, dramatically increased federal and corporate R&D and, in time, venture capital. More of the state's best and brightest would stay here for college (and many thereafter) and the state would become a regional magnet for the brightest high school graduates in the country. The potential for growth-oriented, technology-based spin-off companies would greatly increase, and the likelihood of their development in Louisiana (as opposed to other

states) would go up alongside the increased number of nationally competitive graduates at all levels. Moreover, few actions would more directly work to turn around the state's image among many in the U.S. Reasonable people can argue about how it should be done, how much it will cost and so on, but no one can seriously suggest that creating a nationally competitive state research university would not be a pillar of any successful long-term economic development campaign for Louisiana.

Unfortunately, Louisiana does not yet have even one institution that can claim to be among the top 10 public universities in the South, much less the nation, as ranked by federal R&D funding. That top 10 list includes, for example, UNC-Chapel Hill, UT-Austin, Texas A&M, Georgia Tech, the University of Florida and UVA. Not coincidentally, these institutions are located in the five southern states - North Carolina, Texas, Georgia, Florida and Virginia - that experienced the highest rate of job growth in the South over the past 10 years. Similarly, Louisiana does not have a single public institution listed in the *U.S. News* survey's top two tiers, which includes 130 research institutions. In an era of accelerating globalization and increasing mobility of highly talented workers, regional prominence is no longer sufficient to build knowledge-based industries that can compete on a national and global scale. A comparison of LSU with some of the nation's leading flagship universities is shown in Table 5.

TABLE 5
Selected Performance Measures of LSU and Leading Flagship Universities[1]

Institution	*U.S. News* Academic Reputation (1-5)	*U.S. News* Tier Ranking	Average Freshman ACT Score	First-Year Retention Rate	Six-Year Graduation Rate	Federally Financed R&D Expenditures in 2000 ($million)[2]
UC-Berkeley	4.8	1	29.5	95%	83%	208
U Michigan	4.6	1	27.5	95	82	364*
UVA	4.4	1	29.5	97	91	119*
UCLA	4.3	1	29.0	96	80	274
U Wisconsin-Madison	4.3	1	27.0	92	75	279
UNC-Chapel Hill	4.2	1	28.0	94	79	195
U Illinois-Urbana	4.2	1	26.5	92	76	194
UT-Austin	4.1	1	26.0	89	69	179
Georgia Tech	4.0	1	29.5	87	69	126*
U Washington	4.0	1	25.5	90	71	390
LSU A&M	**2.8**	**3**	**23.5**	**82**	**54**	**45**

1 SOURCE: *U.S. News America's Best Colleges 2002*

2 SOURCE: www.nsf.gov

* This figure represents the system total for the corresponding university.

Funding as Key To National Prominence

Of all Louisiana public postsecondary institutions, LSU - Baton Rouge comes closest to reaching a level of national competitiveness in terms of federal research and development investment, quality of students and academic reputation. Therefore, the current flagship institution represents Louisiana's best chance to create a nationally competitive research university.

Chronic under-funding has held LSU back from its potential. No single factor is more important in driving a university's ability to contribute to economic development than the quality of its faculty. But, top research faculty members are expensive. Because faculty and staff salaries and benefits account for approximately 70-80% of university budgets, and associated costs (e.g., lab space and startup funds) add substantially to these figures, one can hardly argue that LSU could become a firs-rate national research university through efficiency measures alone.

Even a cursory analysis of the top public universities in the U.S. reveals a clear trend: quality is strongly linked with funding. For example, the leading public institutions in the U.S. typically receive 50-100% or more total funding per student than does LSU. To put it simply, there is no shortcut to creating a top-flight public research university: competitive funding may not be the only driver, but it is certainly a necessary precondition.

Disciplined management and careful spending controls are critical, but the University must obtain substantially more funding if it is to compete on a national scale- and if it is ever to generate the substantial state economic development benefits sparked by leading research universities. LSU currently receives only around 65% of its annual funding requirement, or target rate.

The University currently receives state funding of less than $5,000 per FTE, with its BOR target rate set at $7,500 per FTE. Such low actual and target funding rates are insufficient to raise the University to a level of national prominence. Prior to enacting a 15-year plan to advance LSU to national prominence, an appropriate funding target would need to be developed. In comparing LSU to nationally competitive research universities for the purpose of generating a target funding rate, differences in cost of living, endowment income, tuition income, mix between undergraduate and graduate students, and presence/size of high-cost programs would need to be considered.

Recommendation No. 7: Commit to making LSU nationally competitive over the span of a 15-year period, largely by providing total funding per student (state contribution plus tuition) comparable to the country's leading public research universities.

An approximate nationally competitive funding target for LSU would be around $14,000 per FTE, including state appropriations and tuition but excluding endowment income. The development of a refined, nationally competitive funding target is outside the scope of this report. However, a very rough approximation can be made by including the average total funding (i.e., state appropriations plus weighted average tuition) per FTE for five of the top public research universities in the South, excluding agricultural extension activities and medical and veterinary schools: UVA ($13,213), Texas A&M ($11,391), UT-Austin ($13,361), Georgia Tech ($15,404) and UNC-Chapel Hill ($14,179).

The result is an average per-FTE target of $13,510, which is over 50% greater than LSU's current total funding per FTE of $8,894. These five leading southern institutions have an average graduate school enrollment of 25% (FTE basis) and are all ranked in the top 50 of public and private research universities nationally by *U.S. News*; however, they have substantially different enrollment mixes across high- and low-cost programs. Therefore, the estimated target of $13,510 per FTE should be used only as a rough approximation. This value may be on the low side, however, because SREB data includes endowment income only for Texas A&M and UT-Austin, but the other three institutions each have substantial amounts. Nearly $500 should be added to the target to adjust for endowment income, bringing the target to $14,000 per FTE.

This approximate nationally competitive funding target of $14,000 is about 23% greater than an approximate southern average for SREB four-year 1 institutions of $11,350, including state appropriations and tuition but excluding endowment income (except for Texas). These values suggest that approximately $11,350 per FTE - achieved through a combination of weighted average tuition and state appropriations - is a reasonable funding target to secure and improve LSU's regional competitiveness.

Two-Phase Process

As part of a two-phase process, LSU could be upgraded to become nationally competitive in 15 years, reaching a greater level of regional competitiveness within 5-7 years. Assuming funds are used in a targeted and efficient manner, total funding at $11,350 per student would very likely enable LSU to become one of the top five public research universities in the South. The current LSU administration has already initiated the internal process of reforming itself for regional competitiveness under the LSU Flagship Agenda.

Extending the total funding level to $14,000 per student would enable the University to secure its place among the top universities in the country over a 15-year period. An important point to note is that these are 2002 dollars. Because a reasonable transition process would take more than a decade, the state would also need to keep up with inflationary pressures in higher education during that period, in order to ensure that LSU's relative position improves to the desired degree.

A transition to regional leadership and ultimately national prominence would require a deliberate, thoughtful and disciplined management effort, including commitments from the state, the BOR and the leadership of LSU. Given appropriate funding increases the University could begin its process of transitioning to excellence by upgrading its faculty selection and promotion practices, enhancing its focus on graduate studies, targeting resources to key academic disciplines and further strengthening its admission standards. New funding should be balanced 50/50 among developing academic disciplines important to the state's industry clusters and improving the institution as a whole.

Graduate/Undergraduate Student Ratio

Since 1996, the percentage of graduate students in LSU's student body has steadily declined from 20% to 16%. The southern average percentage of graduate students enrolled in SREB four-year 1 institutions is 19%, and the nationally competitive flagship average is around 25%. LSU's practice of increasing its undergraduate enrollment levels and decreasing its graduate enrollment levels is contrary to the mission of a flagship university. However, given that the University is allocated insufficient funding year after year and that its funding is based on the number rather than type of its enrollments, the state's higher education funding policies also work against its flagship mission.

The refinement of the existing funding formula as suggested in Recommendation No. 6 accompanied by the state's increased investment in LSU would work to refocus the University's priorities on graduate education.

Benefits of a Better LSU to Other State Institutions

Focusing attention on advancing LSU should not be viewed as a zero-sum game with respect to the other institutions of higher learning in Louisiana. In fact, other state institutions could benefit to a significant degree were LSU to become one of the leading universities in the country. If LSU transitions to become a leading national research university, its admission requirements are likely to increase dramatically over a period of years. Probably the overall size of its student body will drop, and LSU will receive an increasing number of applications from qualified out-of-state students. This means that many good students who would otherwise have attended LSU will instead elect to attend Louisiana Tech, the University of Louisiana

at Lafayette, or some other state school. The influx would improve the quality of students enrolled at these institutions.

Also, as the university's research endeavors attract new industry to the area, the demand for Louisiana's skilled workers will increase - increasing the importance of the community and technical college system to the state's economy.

Realistic Expectations

Substantial economic progress is measured not in months, not in years, but rather in decades. The higher education investments Louisiana makes in the next several years will not fully bear fruit for many years to come; however, they will never bear fruit if they are not made at all. Silicon Valley and Boston's Route 128 were largely products of massive, federal, military-related R&D grants beginning around World War II that cultivated impressive research engines at Stanford and MIT, the full benefits of which were not realized until much later. North Carolina's Research Triangle Park began in the mid-1950s but did not generate substantial technology commercialization activity until the 1980s. Much of Austin's progress followed a report sponsored by its Chamber of Commerce in 1957 that laid the foundation for the area's involvement in the electronics industry. Over twenty years later Austin was home to substantial installations of IBM, Motorola and Advanced Micro Devices, but the region's real boom happened years later. In each of these regions the active involvement of leading research universities - Stanford, MIT, Harvard, Duke, UNC-Chapel Hill and UT-Austin - was central to creating the economic "miracles" that ensued.

Funding Options For Systemwide Reorganization

The price tag for a fully funded public postsecondary system varies depending on the mix of strategies the state chooses to improve the system. This section develops several scenarios with dollar figures attached as starting figures to be used in the coming debate surrounding higher education's role in the state's economic development. The suggested increases in state-level funding are round figures that use regional averages to estimate what a fully funded system of two- and four-year institutions with and without a nationally competitive research university would cost. The options outlined in Table 6 reflect the cost savings that could be generated if enrollments were successfully shifted from four-year to two-year institutions. Additional cost increases or decreases might be uncovered upon analysis of state funding to Louisiana's specialized institutions such as law schools, medical schools and agricultural centers. This report does not include such an analysis.

Note that the Current Situation in Table 6 is an outline of the system at roughly the current enrollment mix and enrollment level. If no structural changes are made the current system falls short of full funding by about $261 million. This shortfall could be decreased by enrollment shifts even with all institutions receiving full funding per FTE and LSU funded at a nationally competitive level.

Options 2 and 3 reflect an overall decrease in FTEs of 7%, which would likely result from the enrollment shift. This decrease does not indicate an overall reduction in access to higher education, because the enrollment levels are measured in FTEs and not student headcount.

It should also be emphasized that the suggested funding increases do not account for the essential deferred maintenance and capital outlay costs of upgrading Louisiana's campuses. Such costs would have to be included in any plan for systemwide reform, but are outside the scope of this report.

TABLE 6
Scenario Analyses for Achieving Full Funding

Option	Enrollment Mix (FTE %)		Total FTEs	FTE Enrollment				Formula Funding ($million/year)		
	Four-yea	Two-year*		LSU	Other Four-year	ALL Four-year	Two-year*	Total Required	Current Actual	New
Current Situation	77%	23%	169,000	29,000	102,000	131,000	38,000	940	679	261
1. Full Funding with No New Money	60%	40%	125,000	22,000	53,000	75,000	50,000	674	679	(5)
2. Full Funding Under Current Formula	60%	40%	157,000	25,000	69,000	94,000	63,000	841	679	162
3. Full Funding with LSU @ National Target	60%	40%	157,000	25,000	69,000	94,000	63,000	877	679	199

* Community and Technical Colleges.

Assumptions:

a. Spending at the southern average for all institutions (i.e., fully funded system), except as otherwise noted.
b. BOR weighted average funding targets employed for four-year and two-year institutions (except LSU national target).
c. No change in SREB institutional classifications.
d. No change in relative enrollments *among* four-year institutions, except for LSU.
e. No change in relative enrollments *among* two-year institutions, including technical college.
f. Latest SREB FTE values employed (lower than actual present values, but comparable to other values in report).
g. For option 3, LSU weighted average tuition increased by $1,000/year (in-state tuition increase would be less).
h. Total current funding excludes LSU Ag Center, line-item research activities (e.g., LUMCON), medical schools, the vet school and TOPS.

Weighted Average Funding Targets per FTE ($/FTE, based on BOR formula except for LSU national target), excluding tuition:

LSU (current target)	**7,537**
LSU National Target	**9,000** (assumes $1,000 increase in weighted average tuition level)
Other four-year (weighted average)	**5,461**
Two-year (weighted average)	**4,372**

Achieving Full Funding With No Additional Money

Some have argued that simply shifting a portion of four-year enrollments to two-year schools would lower costs enough to fully fund higher education at the current level of state appropriations. This could be done, but only by dropping enrollments to an unacceptable and unrealistically low level. For example, Option 1 in Table 6 shows that full funding could be achieved at a 60%/40% enrollment mix with 22,000 FTEs at LSU if overall enrollments were lowered by 26% from 169,000 FTEs to 125,000 FTEs. A system of this makeup would not be capable of producing the diverse workforce Louisiana needs to develop economically.

At the current enrollment level, there is no way to shift enrollments so that full funding could be achieved at the current level of state funding. In order to maintain the current enrollment level and overall funding level, full funding could only be achieved if all of Louisiana's four-year institutions were converted to community and technical colleges. Even then, the state would still need to add about $59 million to fully fund the system.

Reducing the Full-Funding Shortfall

Option 2 presents a more realistic enrollment shift, however that option requires the state to provide additional funding for higher education, albeit less additional funding than the current system requires. This option would provide full funding for all Louisiana public postsecondary institutions according to the current formula, but with an enrollment mix that more closely mirrors the southern average. While aiming to mirror the national funding targets might be preferable, such aspirations would be better approached from

a position of established regional prominence. Bringing the Louisiana system in line with the rest of the South would be a step in that direction.

The system could reach full funding at a 60%/40% enrollment mix with about $162 million of additional funding. Four-year enrollments would decrease by 28% but community and technical college enrollments would increase by 66%. LSU's enrollment would decrease by 14% to 25,000 FTEs, approximately the University's current physical capacity. However, LSU in this case is only funded to a level of regional prominence - using the existing BOR formula-derived target rate of $7,537 per FTE excluding tuition.

Cost of Full Funding With LSU at Nationally Competitive Target Rate

Option 3 in Table 6 shows that at the same enrollment level and mix as the example above, for an additional $37 million annually, full funding could be reached with LSU funded at a nationally competitive rate and the rest of the system at current formula target rates. This would bring the total additional funding to $199 million above the current funding level. A commitment at this level or above is critical to enabling higher education to maximize its economic development impact.

This scenario would require that the state portion of funding at a nationally prominent level would increase by about $1,500 per FTE from the current full-funding target of $7,537 per FTE to $9,000 per FTE. The tuition portion of funding under this scenario would increase by an average of $1,000/FTE from the current average of nearly $4,000/FTE to $5,000/FTE. By increasing the state and tuition portions of funding, LSU could reach the nationally prominent target rate of $14,000/FTE derived earlier in this report. This option with fewer four-year students, more two-year students and a smaller, nationally prominent LSU reduces the current full-funding shortfall by $62 million. Note that the tuition increase for LSU generates around $25 million at 25,000 FTEs (assuming it is not raised with TOPS funding), making the cost of funding the system with a nationally competitive research university a more realistic and affordable goal.

Benefits of Systemwide Reorganization

- Dramatic economic development benefits - improved quality of higher education graduates; more attraction and retention of top students; better match of postsecondary programs with state workforce needs; improved perception of state; increased corporate investment; increased technology transfer; more and better paying jobs; and increased interest from venture capital firms (in the long-term, largely due to advancement of LSU).

- A fully funded system at a cost $62 million less than the current system requires for full funding.

- Equitable and full funding for all of Louisiana's postsecondary institutions.

- A flagship research university on par with the best in the country, generating at least $100 million more annually in new federal grants.

- Substantially higher graduation rates from four-year institutions, likely approaching those of most other southern states.

Conclusion

Higher education does not operate in a vacuum. Its contributions will be limited or enabled by other aspects of state, regional, local and even national economic development policies. The quality of the K-12 education system and the structure of corporate tax burdens, for example, are also critical factors, as are various quality of life factors.

Higher education can do little in the short-term to overcome barriers faced in some areas of the state because of poor public schools and low levels of corporate investment. But, the state's higher education system can and should begin the process now of repositioning itself to meet the challenges of the increasingly global marketplace in order to fulfill its role in the state's economic development. In

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Conclusion (Continued)

moving forward with the policy recommendations of this report it is important to remember that the values attached to PAR's recommendations are in 2002 dollars and will rise over the course of time it will take for these long-term solutions to impact the state's economy. In light of the state's current budget shortfall, policy makers should maintain the high budget priority higher education has received in recent years.

The organizational shifts outlined in this report would result in more efficient spending of the state's higher education dollars, but additional funding is required to maximize the potential of higher education in Louisiana. The state funding increase could be phased in over a 10-year period at a rate of roughly $20 million a year. Such increased funding, while substantial, is conceivable. The increased appropriations, together with appropriate tuition policies, would result in full funding for all institutions and a nationally competitive flagship university.

As Louisiana's public school system improves, a steady stream of sharp young minds capable of academic success will begin to flow into a more targeted post-secondary education system. As Louisiana's tax reforms attract new investment with more challenging workforce demands, the higher education system will be able to produce graduates that meet those demands. In the 2003 elections, Louisiana citizens can take an important step by electing a governor and Legislature committed to implementing these needed reforms.

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