Testimony of

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the House Appropriations Committee

http://www.umich.edu/~urel/budget/

Thank you, Chair Caul, and all the members of the committee, for the opportunity to address you today.

I appreciate the time that you have provided to me for discussions about higher education in this state over the past year.

There are several messages I will convey today.

The first is a message of pride and commitment that the University of Michigan is, has always been, and must remain one of the nation's leading universities -- public or private.

I also must communicate my deep concern that continued and severe budgetary pressures will threaten the very core of that excellence.

And I am here to affirm our commitment to making our university accessible to academically qualified students from all economic backgrounds.

The University of Michigan and the State of Michigan have been partners for 187 years. The state made a commitment to creating an outstanding public research university before anyone even knew what that would mean. Because of this early ambition on the part of the state and our ongoing partnership, the University of Michigan became one of the top public universities in our country.

But Michigan's support for its public universities has seriously eroded over the past thirty years, and even more significantly in the past three years.

Thirty years ago, the state provided 70 percent of the funding for instruction at our Ann Arbor campus. Today, we receive less than 30 percent of our instructional funding from the state. The burden of the cost of education has dramatically shifted from state support to student tuition.

During these decades, the University made choices that ensured it would remain a nationally top-ranked institution.

There are many stakeholders who have a vested interest in our quality – our students, our alumni, the business and corporate community, arts patrons, and the patients at our hospitals – they all have an investment in the University of Michigan.

Here is the situation we face now: in the past two years, the Ann Arbor campus has experienced a $43 million dollar cut from our base level appropriations, along with almost $20 million dollars in one-time cuts.

These are real dollars, and their loss means the reduction of jobs, courses, and services at the University.

In response to the most recent reductions, we have cut our budget significantly. Last year, we eliminated more than 300 positions. Additionally, the entire senior leadership team of executive officers refused any pay increases. We have reduced services, increased the size of many classes and have eliminated some course offerings.

What are we facing for next year? Because we do not yet know what the state revenue situation will be, we are modeling a range of options.

The state budget proposal, on one hand, cuts the total appropriation from 2002 by about $43 million dollars and requires a limitation on tuition increases. At our campus, tuition now makes up about 60 percent of our instructional funding, so the imposed restraint on that revenue will present a significant challenge. The alternative to that proposal, though, is $62 million dollars eliminated from the base appropriation over three fiscal years. Of course, if state revenues erode even further, we might be looking at other scenarios as well.

At a minimum, our analysis indicates we will need to cut another $20 million dollars out of the 2005 operating budget of the University.

Our budget planning process is underway now, and we are working with the campus to review the range of possible revenues and reductions for next year's operations. We will complete our budget planning in the next two months.

My responsibility is straightforward: I am the steward of the academic strength and future well-being of the University of Michigan.

That future is precisely what I have in mind when I say that the state budget proposal on the table at this moment can only be seen as a short-term step to address Michigan's economic emergency.

I have indicated to our Board of Regents that we will recommend adopting the state proposal when we approve the budget in July. But, it is in no way a sustainable long-term model, if we are to maintain the University of Michigan as one of the top public universities in the country. In the matter of a very few years we could lose the magnificent asset that our partnership has taken almost two centuries to build.

Our student newspaper, the *Michigan Daily*, editorialized that, for students, the loss of quality is their most serious consideration. Our students and their families are balancing not only the cost of their education but also the value for those dollars. And I could not agree more.

The state budget proposal has the important goal of protecting affordability for Michigan residents. My university embraces that goal and we want to continue to work with the Governor and the Legislature to keep the University of Michigan affordable. Last year, our tuition increase was the lowest percentage in the state and was well below the state average. Our overall tuition growth over the last five years has also been the lowest percentage in the state.

Our commitment to affordability is also made evident in our commitment to cover 100% of the demonstrated financial need of ALL of our resident undergraduate students, through grants, loans, scholarships, and work-study programs.

Last year, the University administered more than $96 million dollars in financial aid to Michigan resident undergraduates, from university, private, state, and federal sources. This aid went to 11,000 resident students, with an average award of $8700 dollars per student. The University has more than doubled its institutional funding for financial aid over the last 12 years, and has consistently matched or exceeded tuition increases with additional financial aid.

But we will do even more. The commitment to financial aid will continue to be a guiding principle for the University of Michigan. In fact, scholarship support is one of the top priorities for our upcoming capital campaign.

We want to make sure that no qualified student is denied a Michigan education due to financial barriers, and our continued emphasis on financial aid will be part of the solution. Last week, I asked our University to find out if there are financial barriers that place a Michigan education out of reach for some academically qualified students, and how we can best lower those barriers. This will be a high priority for my administration.

You have asked for additional information regarding financial aid which we have provided in the written answers.

I mentioned our partnership with the State of Michigan. This alliance includes the benefits that flow from the University to our region. One area that has been especially valuable for the state is the manner in which our research has improved the state economy.

The federal research funding we attract, and our use of technology transfer to make discoveries available to the public, provide an enormous economic advantage for the State of Michigan.

In Fiscal Year 2003, the University of Michigan won $528 million dollars in federal funding for research expenditures on projects designed by our faculty. That is $200 million dollars more than our annual state appropriation. At a time when the state is seeking to maximize its ability to obtain its share of federal funding, the University of Michigan is helping tremendously.

We have eight faculty members who EACH have been awarded between $50 million and $87 million dollars in federal funding over the past fifteen years. These are faculty members who, year after year, attract the top graduate students and compete for the federal dollars that create jobs in our offices and laboratories. These researchers would not be successful if our university were not strong overall. By maintaining the distinction of our programs, we are helping to keep those faculty members – and their research dollars – in the state.

The impact of our research cascades throughout our state and country.

In 2003, for the first time, the University of Michigan was ranked in the top ten universities for patents received. Also in the same period, we had 257 new invention disclosures from researchers and 76 new license agreements.

Because we must compete nationally in terms of our research, we seek and employ the best faculty members we can identify. In turn, other universities are continually trying to recruit our top faculty members, so we must not only hire the best, we must be sure to make this a university that will retain its best faculty. The state appropriation invested in our academic core makes our University a fertile environment for this kind of economic activity.

The University of Michigan can contribute in new and significant ways to economic development. I have been speaking to business organizations on this issue, and will work with other state universities to increase the interaction between our academic units and regional leaders in business and industry.

We are committed to working with the Governor and Legislature to find sustainable models that can achieve our shared goals.

The Michigan Economic Development Corporation estimates that up to 55% of graduates with degrees in high tech programs such as engineering, the life sciences, and information technology who come to school in Michigan, stay to work in Michigan after graduation.

The entire nation is watching and is envious of the commitment of this state to the life sciences. Our Life Sciences Institute will have its grand opening with public lectures and tours of the new building on May 13 and 14. This Institute has already attracted leading scientists who are working on projects that will change the way we deal with our health. This research will lead to preventive health measures as well as new treatments for life-threatening health problems.

The Life Sciences Corridor has been tremendously effective in encouraging job growth. Many biotechnology and life sciences-related companies have chosen to locate in Michigan because of the support provided by this corridor, leading to a 30% increase in Michigan jobs in the life sciences over the past 6 years.

Unfortunately, the Corridor is threatened by the reductions in state funding, and we hope that when the economy revives, there will be a renewed commitment by the state to investing in this effort.

In announcing her executive order last December, Governor Granholm observed, "Moving Michigan forward means opening our doors to new businesses and new residents, and opening our minds to new ideas." The University of Michigan serves all of those goals.

I look forward to working with you, your colleagues in the Legislature, and the Governor to find the best ways to provide our students with the best available education, to support our State, and to keep our research and educational programs among the best in the country. Thank you, and I will be happy to take any questions you may have.