

Testimony of James B. Milliken, President, University of Nebraska Appropriations Committee Hearing

March 6, 2007

Good afternoon, my name is James B. Milliken. I am president of the University of Nebraska, but I am first a Nebraskan. Five generations of my family have lived in Nebraska. All three of my children were born here, and in a few years may attend college here. I am the first Nebraskan to serve as president of the university in its history. This all may seem like unimportant trivia, but it informs the way I approach my job.

I believe strongly that the University was created and exists today to serve our state – and it has done that extraordinarily well throughout its history. Yes, one of my responsibilities is to secure the state, federal, and private funding necessary to deliver important programs and meet important objectives, and I approach this responsibility with the goal of serving the state.

The University is in a position to serve Nebraska now, in 2007, in a way that no other institution or investment can. Why do I say that? There are certainly other important institutions that are vital to our future. But as a leading research university, the University of Nebraska has a responsibility unique in our state.

Nebraska must compete for talent

The early 21st century is all about a competition for talent, and a strong research university is essential to that competition in a way that no other institution is. We're familiar with Tom Friedman's metaphor "The World is Flat," and we recognize – at least intellectually – that we are competing

across the globe because of changes in technology, trade, and education. But are we doing what we need to do to be competitive? Are we investing for our future? Are we asking the right questions about how Nebraska needs to be positioned?

I believe the most important thing we can do is take advantage of all the talent we have in this state – and nothing is more important in this regard than providing access to quality education. We also need to attract all the talent we can to Nebraska – to attend our institutions and stay here afterwards. We need to prepare Nebraskans for the 21st century. This is the essence of our teaching mission.

We need to continue to support a research agenda that attracts top faculty and outside grant support, which in turn creates important economic activity and benefits the state. We need to create new knowledge and new technology. This is the essence of our research mission.

We need to push this knowledge outside the traditional boundaries of the university for the benefit of Nebraskans and their businesses. We've had success at this for more than a century in agriculture, and it is important now to do it in many other areas. This is the essence of our outreach mission.

Our predecessors' investments in the University of Nebraska, and their decisions made on behalf of the state, have given us some key assets to help us in this competition for talent. I take great pride and reassurance in the stories of the individuals who courageously established and built this

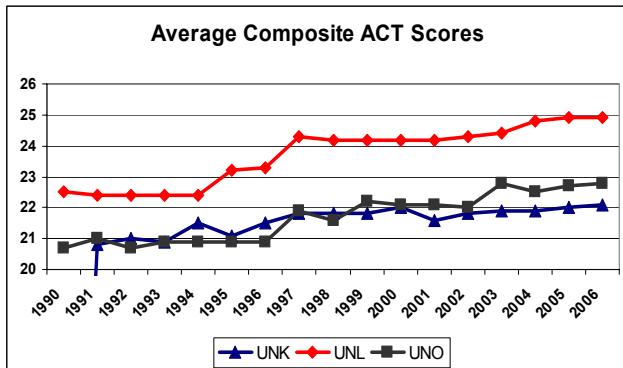
university at a time when our state was in much worse financial straits than it is today; when your predecessors and mine were faced with choices even more difficult than we face today.

They built the institution that we hold in trust for Nebraskans. And we were fortunate that they did it so well; that they left us a university this good, this relevant to the state's needs, this well-poised for our state's future.

I feel an obligation – one that sometimes keeps me up at night – to make sure that I keep faith with this heritage ... that in a generation or two, our children and grandchildren will look back and recognize that we made good decisions and smart investments, from which they have benefited.

A path of excellence

This is a very good time in the history of the university – and, most important, in terms of what it can do for the state. We have an excellent faculty that has attracted hundreds of millions of dollars of research support from outside the state. The ACT scores of our students are the highest ever, and we're attracting more top Nebraska high school graduates than we have in years. Enrollment has increased each of the past two years, with especially encouraging increases in the number of first-time freshmen and out-of-state students.



We have made strategic decisions regarding our future, eliminating programs in order to invest in areas that are aligned with the interests of Nebraskans and in which we can be a national leader. We have set strategic goals that keep us focused on how and where we need to put resources. And we are seeing the positive results of this on every campus, in public health, agriculture, water resources, alternative energy, engineering and information sciences, and in business leadership for a global economy, to name just a few areas.

Affordable access: Our #1 priority

One of the keys to competitiveness in the knowledge economy is to ensure affordable access to a quality education – and that is our highest priority. Although Nebraska has one of the highest high school graduation rates in the country, our college-going rate is far less impressive. We know that affordability is already a barrier to some, and we have set a goal of keeping tuition increases moderate and predictable. We also know that as our state undergoes a dramatic demographic shift in the next decade, we must develop additional strategies to encourage and facilitate college participation.

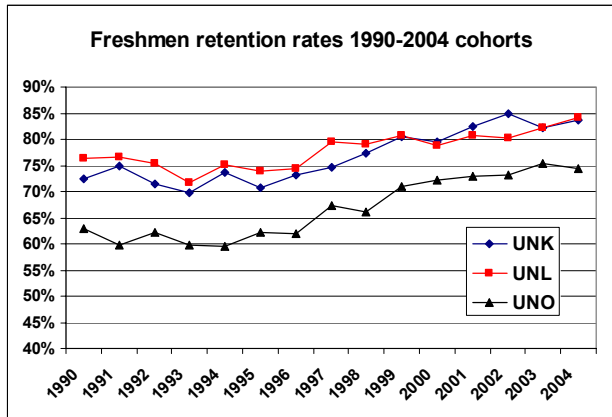
We have also set a goal of increasing the academic competitiveness of the university by aggressively recruiting more top students, both from within the state and from out-of-state. We have students on our campuses who have also been accepted at Stanford, MIT and other prestigious universities.

These students didn't choose the University of Nebraska just because it is more affordable – they came here because of the growing strength and reputation of our academic programs. Through strategic investment of both state and private funds,

we have developed honors programs, majors and unique learning environments that offer an education that rivals any university in the country.

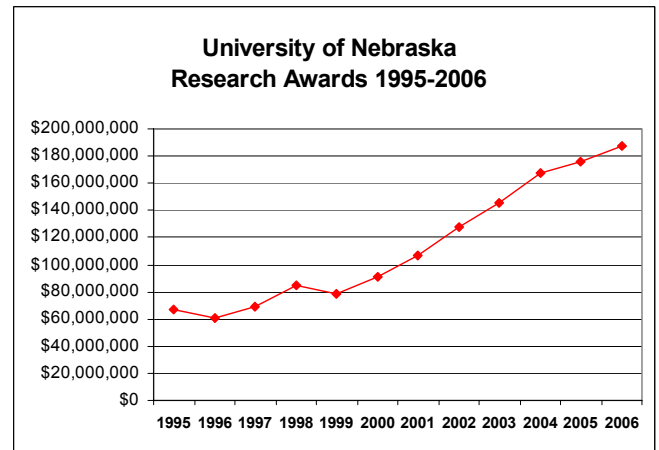
The other night we had dinner with some of these students and alumni, who came to the University of Nebraska from Russia, Bulgaria, California and Missouri, as well as Ravenna, Sutton, and Grafton. Each could have gone almost anywhere but they chose to come to or stay in Nebraska because of the University. Now they have stayed and started businesses based on their work at the University. This is an impressive brain gain and it is an important part of the solution for Nebraska's future.

Because of the quality and innovation of our undergraduate majors and graduate programs, we have also been more successful in attracting out-of-state students and international students. The number of non-resident students increased 4.5 percent last fall, and we have nearly 2,400 international students representing 120 countries. Our freshman class is the most ethnically diverse in our history, with a 44% increase in Latino students in just two years. In terms of outcomes, we have seen significant increases in freshman to sophomore retention rates and graduation rates on all campuses in the past decade.



Success in research = job creation

Our success goes well beyond the classroom. The University of Nebraska is now ranked 33rd among all public universities in research and development spending with just under \$300 million. We have more than doubled external funding for research in just six years ... from \$91 million in 2000 to \$187 million in 2006.



Those numbers are important not only for the additional revenue they bring in to the state, and not only for the contributions our research makes to our quality of life, but for the jobs they support. According to the Bureau of Labor Statistics, an average of 34 Nebraska jobs are created for every \$1 million of research spending, or more than 6,000 jobs overall.

Those jobs are just one indication of the powerful economic impact the university has on the state. Last fall, an independent study of the University of Nebraska Medical Center and the Nebraska Medical Center demonstrated a \$1.5 billion-dollar impact statewide, including \$817 million dollars in payroll supporting more than 17,000 jobs.

A 15-to-1 return on investment

More recently, the highly respected Battelle Memorial Institute conducted a study of the impact of our Institute of Agriculture and Natural Resources. It showed IANR's considerable contributions to the economic and social fabric of the state, including the creation of new products and technologies, leadership in biofuels and renewable resources, and focus on education. Citing a 15-to-1 return on investment of state funding, the report called IANR an innovation engine for the state, focused on improving and sustaining Nebraska. The same could demonstrated for our other campuses.

The university's success and momentum is also evident in record levels of private support. More than \$87 million was transferred to the university in 2006 for scholarships, facilities, faculty support and programs. More than 95 percent of these gifts are restricted by the donor to a specific use, a reflection of the confidence that our alumni and other donors have that their gifts will be used to advance the university in the ways they envision. These funds can't be used for other purposes, but that doesn't mean they aren't incredibly valuable. Donors are giving to important priorities and heavily leveraging the state's investment. And our success in raising these funds is directly tied to momentum – investing in a winner.

We are building important partnerships with the private sector – creating internship programs that lead to well-paying jobs for our graduates; leveraging our research for commercial development that creates new products and new jobs; making our campuses a more vibrant and appealing part of their communities; and developing collaborations that capitalize on the collective intellectual and financial resources of the business community.

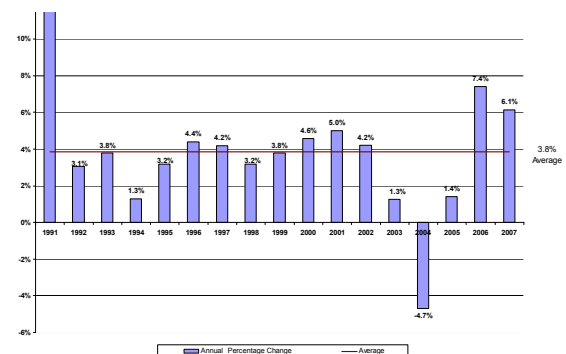
A university – and a state – at risk

These are just a few of the indicators showing a university with exceptional momentum and academic promise. But what we have built together is at risk. Continued success will take hard work, investment, and smart choices on our part, but it will also take support from the people of this state and their elected officials. We should not squander this hard won position. We cannot afford to lose this momentum.

In the current biennium, the governor and the legislature provided strong support, which allowed us to invest in faculty compensation to be more competitive and to keep tuition increases at the lowest levels in almost a decade. I have been told that if you look at the current biennial budget together with what the Governor or this committee has proposed for the next, the average increase is over 4 percent, which sounds good.

But to be fair about it requires a bit longer view. Instead of just picking the last two years of support of a 138-year old institution, which could be misleading, let's go back one more biennium [2003-05], when the university's budget was *reduced* by 4.7 percent in 2004 and increased by only 1.4 percent in 2005. When combining the two previous biennia with the committee's current recommendation, the three-biennium budget average is 2.6%.

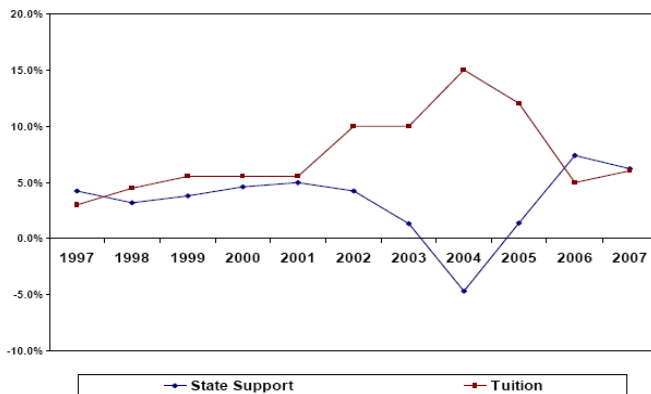
NU State Appropriation Annual Percentage Change



If we go back one more biennium, to 2001-03, the average is still 2.6% per year. It has taken significant investment in 2006 and 2007 for us to begin to regain the momentum we lost as a result of nearly \$50 million in budget cuts earlier this decade.

Let me tell you about our budget request this year. The budget we submitted last fall, which includes mandatory expenditures and some investment in new academic programs targeted at Nebraska needs, together with salary obligations, is far greater than this committee is in a position to support. We recognize that. The difference between that request and the initial committee recommendation is \$36 million in the first year of the biennium and \$26.8 million in the second.

State Appropriation and Tuition Increase History

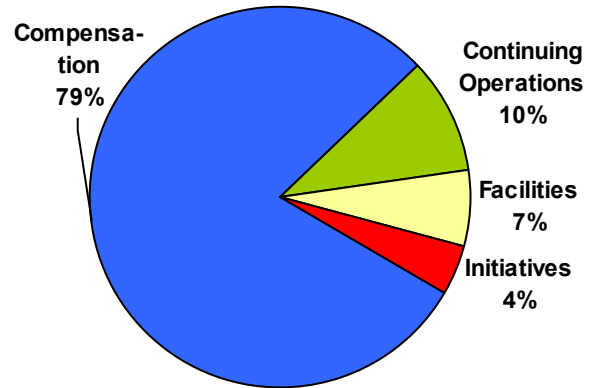


So let's talk about only the mandatory items – the items required by law (collective bargaining and other statutory requirements) and out of pocket expenses we have to pay no matter what you invest.

It's not surprising in an era – and for an enterprise – that depends on talent that our budget is driven by compensation—about 80% of the state-aided budget. One percent of compensation costs more than 1 percent of general fund increase. Last month, we were unable to reach agreement with our collective bargaining units on salary increases at UNO and UNK. To bring those

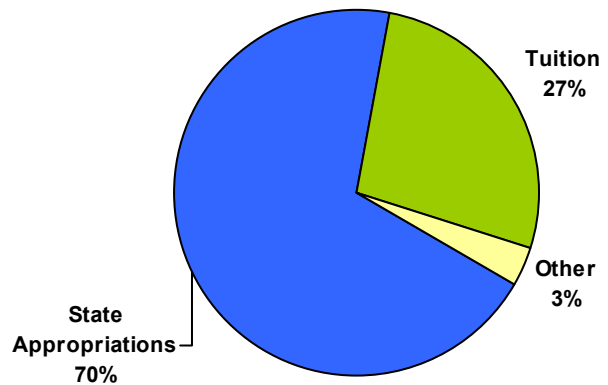
campuses to the mid-point of their peers, the special master ordered us to pay salary increases of 4.3 and 4.4 percent each year.

Expenses FY 2007



1% Salary Increase = \$4.8M

Funding Sources



1% State Appropriation Increase = \$4.5M
1% Tuition Increase = \$1.7M

UNL and UNMC, our two non-unionized campuses, are farther behind their peers. To treat them equitably, we should be providing larger increases. At UNL, it would take an increase of 5.3 percent to bring faculty salaries to the midpoint of peers. At UNMC, the gap is 8.4 percent. But today, we aren't asking you to do that. Our staff salaries (which compare in many

cases to state employee salaries) are nearly 9 percent behind their peers. Again, we aren't asking you for those funds. We are asking for only enough to pay our salaries at the level now required at UNK and UNO.

We also have mandatory expenses including related benefits, utilities costs and building maintenance and depreciation. Our goal is to meet our essential costs, keep tuition increases reasonable and predictable, and continue to reallocate to strengthen academic programs.

Our analysis shows that, even if we were to again increase tuition by 5 percent, plus the 1 percent assessment for debt service on LB 605, we would need an increase in our appropriation of 5.7 percent in the first year, and 5 percent in the second year, to cover our mandatory costs. Any other investments funded – in programs of excellence, student and faculty diversity, and information technology – would be covered by our own internal reallocations and program reductions.

The university's request

That is our request: an increase in our base appropriation of \$25.6 million in 2007-08 and \$24 million in 2008-09. This request, which exceeds this committee's initial recommendation by \$16.2 million in the first year and \$9.1 million in the second year, will allow us to fund a 4.4 percent salary increase for faculty and staff, related benefits, and other mandatory costs.

I would also draw the committee's attention to two additional items. The funding

request for the Nebraska College of Technical Agriculture is calculated on the same basis as the university-wide request – a 4.4 percent salary increase plus mandatory expenses would require increases in the NCTA budget of 7 percent and 3.9 percent. The new dean of the college, Weldon Sleight, has set ambitious long-term goals for the College, including rebuilding the faculty, upgrading facilities with public and private support, and incorporating entrepreneurship into the curriculum to encourage economic growth in rural Nebraska.

The other item is our capital request, which includes \$15 million for a new student information system and \$14.3 million to fund four projects in greater Nebraska that will improve our research and outreach capabilities in Sidney, Concord and Mead. Technical support for our current student information will no longer be available after 2011, effectively rendering the system obsolete. This is one of those unglamorous investments that is necessary for the university to maintain records for and deliver information to our faculty, staff and students.

In closing, I want to say that I consider myself extremely fortunate to lead this institution. It's a great university with a rich heritage. With adequate investment, it can continue to be an extraordinary and powerful force for economic growth. I don't think it is an exaggeration to say that the strength of the University of Nebraska is one of the most significant determinants of the success of our state. Thank you for your thoughtful consideration, and for all that you do for the state.