Hearing Testimony
California Senate Subcommittee on Higher Education
UC Merced

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Thank you, Senator Speier. I am pleased to be here today and I would like to thank you and Senator Denham for your long-standing support of the University of California. As President Dynes said, the University is facing enormous challenges, particularly in an era of highly constrained public resources at both the state and federal levels. Let me elaborate briefly on this point.

The University's academic quality and its institutional competitiveness, as well as student access and affordability, are closely linked to the University's financial health. As both Senator Speier and Senator Denham have noted, over the past 20 years, the state's spending decisions have placed a lower priority on higher education than on other state programs. From 1984 to 2004, state spending (per capita) on higher education decreased by 9 percent, while at the same time, state spending on Health and Human Services increased by 31 percent, state spending on K-12 education increased by 37 percent, and state spending on prisons increased by 165 percent. The state's spending priorities in the past twenty years placed a much lower priority on higher education than was the case in the preceding twenty year period from 1964 to 1984. By altering its spending priorities

in this manner, the state has shifted more of the responsibility of paying for a college education to students, in the form of higher student fees. From 1984 to 2004, the amount of state funds provided to support each UC student has declined by 40 percent, even as our enrollments have grown dramatically. This reduction in state support has resulted in significant student fee increases to offset the state budget cuts.

However, even with the increases in student fees, the University of California still faces a significant funding shortfall of $500 million, which equates to $2,500 per student. As a result of this funding shortfall, the University is at a tipping point. The quality of UC is still very strong, but the early warning signs of erosion are palpable. The gap is widening between the best private universities, with which we compete for top faculty and students, and the University of California.

Why should this growing gap between public and private universities be a concern to the state and the nation? Because private universities, while excellent, are too small to meet California's or the nation's needs for a well-educated workforce, to develop the innovations that fuel our economy and provide jobs, or to develop the latest medical advances to care for the sickest patients. In the past ten years, California's three private research universities (Stanford, USC, and Cal Tech) have increased their undergraduate enrollments by a combined total of only 1,500 students. During the same period, UC increased its undergraduate enrollments by 42,000 students. As California's population surges to 50 million people in 2025, California's public universities will become ever

more important to the attainment of crucial social, educational, health and economic goals.

The gap between public and private universities is evident in measurable ways. One of the clearest challenges is UC faculty salaries, which are falling further behind our private comparison universities. In 1980, this gap was 3 percent. Today, UC faculty salaries are 22 percent below these universities. As a result, we are spending more of our already limited resources in making salary counter-offers to discourage our faculty from accepting positions at the best private universities. In addition, our student-faculty ratios are also well behind those at private universities. This affects a student's learning experience and a faculty member's teaching experience. And fewer public universities show up among the top 10 in national rankings today than was the case two or three decades ago.

The federal budget outlook is not much better than the state's situation. Let me first say that federal funding is critical to the University -- it is our primary source of funding for faculty research, for Medicare and Medicaid revenues that support UC's teaching hospitals, for student financial support in the form of grants, work-study, and loans, and for our three Department of Energy (DOE) national laboratories.

In Federal Fiscal Year 2004, UC received over $8 billion in federal funding. $4.1 billion was for the three DOE national laboratories that UC manages. And $4 billion was for our

educational programs, of which $2.6 billion was for research, $1.4 billion was Medicare and Medicaid revenue, and $242 million was for student grants and work-study. In addition, UC students and their families received another $714 million in federal student loans.

Although the new federal fiscal year began on October 1, Congress has not yet passed a federal budget. The continuing spending resolution, which is currently funding the federal government, is set to expire on November 18. The President's Budget Request for this fiscal year calls for flat funding for the programs that fund the University. Yet his budget does not include funding for the wars in Afghanistan and Iraq or for recovery efforts following hurricanes Katrina and Rita. These additional spending priorities could further reduce funding for the University's programs.

In this context, the Senate and the House have proposed spending reductions on mandatory programs of $39 billion (Senate) and $50 billion (House) over the next five years. This may translate into reductions of $8 to $15 billion in student loan programs, reductions approaching $6 billion for Medicare, and reductions in the range of $4 to $9.5 billion for Medicaid.

Bills currently pending in Congress represent the biggest net cuts to federal need-based student aid since the inception of these programs. Most needy students borrow money to

attend college and the proposed reductions in federal student loan subsidies are likely to increase the average loan costs to college students by several thousand dollars.

The final federal budget may also include an across-the-board cut of up to 2 percent to all domestic discretionary spending in federal Fiscal Year 2006. Given that most federal funding for education and research is expected to remain flat at best, an across the board cut would further hurt the University and our students.

However, in view of this gloomy assessment, I want to assure you that we are not relying solely on funding from the state and federal governments. We are working very hard to increase funding from the private sector, which has become crucial to the University. Our efforts have increased philanthropic giving to the University from $446 million in 1995 to $1.2 billion last year. This success is very gratifying, but philanthropic giving will not be able to offset the reductions in state and federal funding.

Given these severe funding challenges, today's hearing on access and affordability is even more pertinent to ensuring that the University of California remains a great public university serving the research, education, and public service needs of the state. Madam Chair, this concludes my remarks. I would be pleased to answer your questions.