University of Houston System/University of Houston

Testimony for the Senate Finance Committee

February 14, 2011

The UH System and its Role in the Houston Metropolitan Area and Texas

The past two decades have been a time of profound change for the Houston metropolitan area. Our population has grown by more than one million people and in the next five years is projected to reach 6.5 million. We have also witnessed a remarkable shift in the economy toward one increasingly driven by the creation and exchange of new knowledge, where higher levels of critical thinking skills and educational attainment are paramount to successful participation in the workforce. With the Houston metropolitan area representing 24 percent of the state's population and 33 percent of its economy, the future of Texas is dependent upon the future of the Houston, which in turn is dependent upon how well the UH System – as the only comprehensive university system in Houston – educates the increasingly diverse and growing population in our region. The UH System includes:

→ **University of Houston** – The largest university in Houston and the third largest in the state, UH is a nationally competitive doctoral degree-granting, comprehensive research university that has recently been recognized by the Carnegie Foundation for its very high level of research activity.

→ **University of Houston-Clear Lake** – Located near the NASA Johnson Space Center, UH-Clear Lake is an upper level and master's institution situated in the heart of Clear Lake's high-technology community.

→ **University of Houston-Downtown** – The second largest university in Houston and the most ethnically diverse university in the state, UHD is a four-year, primarily undergraduate institution that is now expanding its portfolio of graduate programs.

→ **University of Houston-Victoria** – Located in the Coastal Bend region of Texas, UHV is an undergraduate and master's university that enrolled its first freshman class this fall and has one of the most dynamic online educational programs in the state.

In addition to its universities, the UH System includes the UH System Administration; five off-campus teaching centers in Sugar Land, Katy, Pearland, Northwest Houston, and the Texas Medical Center; and Houston's public radio and television stations (KUHF-Houston Public Radio and KUHT/Channel 8-Houston Public Television).

Quite simply, the UH System does more to enroll and graduate students and produce cutting edge research than any other university in the region. Over the past several years our growth has been dramatic. This fall, each of the universities posted record high enrollments, and the University of Houston (and the system as a whole) posted record highs for research. Total enrollment at the UH System was 63,846 this fall, while total research awards last year were $124 million.

The UH System's over-arching vision is to become one of the nation's finest metropolitan university systems, with a Tier One research university at its center. To fulfill this vision, the UH System Administration and Board of Regents embarked on a strategic planning process in early 2008. To date a new strategic framework for the system has been established that includes new goals and operating principles, new mission statements, annual progress cards, four system-wide initiatives (in the areas of health, global outreach, student pathways and faculty pathways), and enrollment and research targets for 2020. The next phase of this planning process is to develop academic and campus master plans that enable us to achieve our enrollment and research targets. These plans will be completed this spring.

Impact of the Senate Bill 1 Reductions on the UH System

The UH System's enrollment target for 2020 is 84,000, which is a 32 percent increase from fall 2010. Without question this target is ambitious, but it is by no means unrealistic – over the past ten years enrollment has grown by 27 percent. Under the introduced version of Senate Bill 1, the UH System's general revenue appropriation for the FY 2012-2013 biennium would be reduced by $81 million (16%) from its original FY10-11 appropriation. $54 million of this reduction would be borne by the University of Houston main campus. It is not an exaggeration to say that cuts of this magnitude would severely limit our ability to achieve our goals. In fact, we would not be able to support the students we currently enroll, much less accommodate forecast enrollment increases in the coming years. Nor would we be able to enhance the quality of our programs – in particular, the University of Houston's emergence as a national research university would be compromised considerably. We would lose high quality faculty and staff; the state's workforce would suffer; and research productivity, technology commercialization, and economic productivity would all slow. The specific impact of the proposed reductions on the UH System can be demonstrated by the following:

→ 9,300 students lost or

→ 1,220 courses eliminated or

→ 300 faculty lost

The UH System understands that all components of state government must do their part in addressing the state's financial crisis, but the higher education reductions contemplated in Senate Bill 1 would risk the long-term economic future of Texas.

Moving Forward with Reduced State Appropriations

Looking ahead, the UH System believes that even with reduced state appropriations our universities can and must make progress on their strategic goals. We realize that even in the best of times we have very high ambitions that cannot be funded by the state and students alone – our universities must be equal partners in moving themselves forward. With respect to the University of Houston, we are taking numerous steps to increase the resources we have available to invest in institutional priorities:

→ First, we are stepping up fundraising efforts and posting significant gains. Three years ago annual giving to UH was $49 million. Today it exceeds $100 million. One of the fundraising

initiatives we are most proud of is our drive to raise $100 million for undergraduate scholarships and programs. To date we have raised $63 million.

→ Second, we are reallocating university resources from low priority areas to high priority areas. In addition to the state budget reduction we absorbed for the current biennium, UH has reallocated an additional $16.5 million to invest in its top priorities of student success and national competitiveness, including more faculty, more instruction, greater support for students, and enhanced research infrastructure.

→ Third, as we consider potential cuts for the upcoming biennium, we are examining our instructional delivery model to ensure that we optimize enrollment and revenue generation relative to instructional costs. Issues we are considering include faculty workload, class size and class scheduling.

Beyond these recent endeavors, it is important to recall that in 1997 the UH System undertook a major reorganization to enhance operational efficiency: the merger of the UH System and University of Houston administrations. Doing so has allowed us to continue to provide essential centralized services on behalf of our universities (i.e., general counsel, audit, board operations, facilities planning), while enabling us to perform other system-wide functions (e.g., strategic planning, program approvals, budget and financial matters) with one less set of administrative officers. This merger has resulted in significant cost savings, enabling us to redirect resources to university priorities.

UH System Appropriations Priorities

In addition to implementing the resource development strategies and cost saving measures described above, the UH System looks to the legislature this session to assist us in achieving our goals and meeting the higher education needs of the state. Below are the UH System's appropriations priorities – funding and policy issues that we believe are essential to the future of our universities and higher education in Texas. Moving forward on these priorities, even in difficult financial times, will secure the state's long-term economic prosperity.

Priority 1: Students First – Base Formula Funding, Incentive Funding and Financial Aid

As the demands on our universities grow, it is imperative that we provide adequate resources for basic educational services through the formulas. Without sufficient base formula funding, universities will not be able to accommodate enrollment demand through course delivery, enhance program quality by recruiting and retaining exceptional faculty members, or improve student success through academic support services. In short, we will not be able to achieve the goals of "Closing the Gaps." The 5% reduction of formula funding in Senate Bill 1 (on top of the 5% reduction for the current biennium), plus the elimination of the $80 million in incentive funding, will severely compromise our operations at a time when there is very high and growing demand for our services.

In addition to formula and incentive funding, state resources for student financial aid are essential if Texas is to expand access to higher education and facilitate student graduation. This is especially true at the UH System, where the education of many of our students is not paid for by their families. Rather our students typically work to pay for college and rely heavily on

financial aid. Therefore, the UH System encourages the legislature to preserve funding for TEXAS Grants and the other financial aid programs that were reduced in Senate Bill 1.

Priority 2: Sustaining the Momentum – Funding for Tier One Universities and Program Excellence

Taken together, the Research Development Fund (RDF), Texas Competitive Knowledge Fund, and Texas Research Incentive Program (TRIP) constitute an innovative and powerful tool for developing more nationally-competitive Tier One research universities. In Senate Bill 1, appropriations for all of these funds have been reduced by 25%. Maintaining these appropriations is essential to the University of Houston, which relies on these resources to develop its research infrastructure through investments in lab renovations, equipment purchases, and faculty recruitment and retention. Additionally, continued, uninterrupted funding for TRIP is needed to maintain donor confidence in the program.

With the creation of the National Research University Fund (NRUF) during the last legislative session, the state has added an important new element to its portfolio of resources dedicated to creating more Tier One universities. What remains to be accomplished is the development of a distribution methodology to support the emerging research universities once they qualify for funding. We encourage the legislature to develop an NRUF distribution methodology this session, so that eligible universities, once they qualify, will have access to these funds as soon as possible.

As part of House Bill 51, the legislature also created an incentive grant program, through which the state's non-research universities were encouraged to develop programs of national excellence. Though not funded, we believe that this program, even in concept, is important for the state, especially since UH-Clear Lake, UH-Downtown and UH-Victoria are working to define the ways in which they will distinguish themselves nationally. Doing so, however, will be much more difficult if the reductions identified in Senate Bill 1 are implemented.

Priority 3: Proportionality in Budget Reductions among State Agencies

In implementing the 5% general revenue reductions for the current biennium, institutions of higher education bore 41% of the cuts ($520 million), even though they represent only 12.5% of all state spending. According to the Legislative Budget Board, in Senate Bill 1 the state's higher education institutions will again sustain disproportionate general revenue cuts (11.9%) relative to state agencies as a whole (10.1%). Given the importance of higher education as an economic engine to the state (every dollar invested returns a greater amount to the economy), and to help our institutions maintain affordability for students, the UH System believes there should be greater proportionality among state agencies in sharing the budget reductions during the upcoming biennium.

Priority 4: Increased Funding Flexibility

Negotiating the budget cuts for the upcoming biennium will require universities to make difficult choices about how to invest their remaining resources. For this reason, the UH System recommends that the legislature authorize a greater level of flexibility in how universities can allocate state resources. Specifically, we would like to explore transferring debt service from the institutional level to the system level. Doing so would provide us with greater latitude in addressing system-wide facilities needs. Similarly, lump sum funding for special items would

allow us to target emerging programs in promising research areas rather than be locked into a funding strategy established many years ago (and in some cases decades). Also, funding Higher Education Group Insurance at 90% of ERS rates will limit institutional flexibility if other resources must be identified to make up the difference. These and other statutory issues the UH System looks forward to discussing with the legislature during the session.

The University of Houston – an *Emerged* Research University

Texas universities earn the support of the legislature and the public only to the extent that they can demonstrate that the resources entrusted to them are used effectively. We believe progress at the University of Houston over the past several years justifies not only public trust but real excitement for what is happening at the UH System's flagship institution. We are no longer an "emerging" research university. We have, in fact, emerged.

Every year, the investment of resources at UH centers on moving the needle with respect to the university's top two priorities – student success and national competitiveness – both of which are essential to enhancing UH's reputation as a national research institution. As the following table demonstrates, much progress has been made in numerous areas important to both the university and the state:

	2001	2011
Total Enrollment	33,007	38,752
Bachelor's Degrees Awarded	3,353	4,778
1-Year Freshman Retention Rate	78.5%	81.6%
6-Year Freshman Graduation Rate	37.0%	45.7%
Average Freshman SAT	1038	1088
Percent of Undergraduates Living on Campus	9%	16%
Doctoral Degrees Awarded	205	233
Total Research Expenditures	$51M	$96M
Total Private Support	$33M	$102M
Alumni Giving	5%	12%
Endowment	$312M	$491M

Evidence for the University of Houston's growing presence as a national research university can also be found in its recent classification among the most productive research institutions in the nation by the Carnegie Foundation for the Advancement of Teaching. The Carnegie Foundation is a nationally recognized policy and research center that evaluates and classifies universities based on empirical data every five years. UH has now become the third public university in Texas in Carnegie's top-tier group, joining the University of Texas at Austin and Texas A&M University.

Much of the credit for the University of Houston's success in recent years – and that of the entire UH System – is attributable to the support we receive from the Texas Legislature, both in

terms of funding and public policy that makes higher education a top priority for the state. Even in the midst of unprecedented financial challenges we hope that the legislature remains strong in this commitment. Higher education has proven to be a good investment.