

The Texas A&M University System

Robert D. McTeer, Chancellor

**Presentation to the
Senate Subcommittee on Higher Education Committee
The Honorable Royce West, Chair**

February 7, 2005

Good afternoon, Chairman West, Senators. My name is Bob McTeer, and I'm honored to serve as Chancellor of the Texas A&M University System. Thank you for inviting me to share some of our key priorities and aspirations for this Session. As you know I'm new in the job and I may have to call on my colleagues for help in answering your questions. I trust you won't let my inexperience work to the detriment of the A&M System—at least not in this session.

In my previous life as a Federal Reserve policymaker, I became acutely aware that many of the challenges we face in sustaining growth and putting prosperity within the reach of all our citizens have more to do with educational opportunities than with economic policies. I made my late-career change in part because I believe the key factors in our future prosperity are more educational than economic.

Our new economy features faster productivity growth that raises the real income of those able to hold onto and continuously upgrade their jobs. But our new economy also features faster creative destruction and job turnover as older industries and jobs give way to the new. Our low-skilled uneducated workers can't compete with their counterparts in most of the world, so we must keep upgrading our work force to fill the higher-end jobs that will survive new technology, trade and outsourcing. A university education means much more than job security, but that is an important part of it. We should think of it as investment rather than consumption, both for the individual and for the state and nation. If done well it can pay for itself through higher incomes and more tax revenue.

But, beyond such practical considerations, I think Texans want to be proud of having one of the best systems of higher education in the country. And, frankly, I want the Texas

A&M System to be a major source of Texas pride, as do Aggies and former students of all our other institutions throughout the state.

Of course, investment takes money to get the virtuous cycle going, and money is scarce. I understand that the competing needs of the state exceed the resources available for the legislature to allocate, and I don't envy your job. But having said that, let me outline some of our priorities for this session.

Our number one priority is to earn your support for the General Revenue that our institutions need to continue their academic programs, research and services, at least at current levels. In addition, we do have some proposals and requests, which, if funded, will allow us to improve our programs and accommodate our growing enrollments. Before turning to specifics, I would like to put these priorities into the context of the last two sessions.

For the 2004-05 biennium, the legislature was able to appropriate to A&M System universities almost as much as it did in the previous biennium. Considering the \$9.9 billion shortfall last session, we were grateful for the level appropriation. However, the reality is that our enrollment grew by 6,432 full time student equivalents. Given that enrollment increase, our “flat” appropriation translated into a decline of \$376 per full time student equivalent, or more than 7%.

As a result, in order to maintain current programs and services, our universities increased their designated tuition, each according to its individual circumstances. Even with the additional tuition revenue, our universities still experienced a funding reduction of \$179 per student, or 3.4% for the current biennium.

This past fall, our designated tuition charges ranged from a high of \$74.50 per semester credit hour at Texas A&M University and A&M @ Galveston to a low of \$34 at A&M-Texarkana. While the increase at Texas A&M and Galveston was significant, it was the 8th highest in the state and the only ones of our universities above the state average in designated tuition. Only 4 of our universities exceed the cap in place prior to deregulation, while 6 remain at or below the former cap.

We bring this to your attention because our enrollments continue to grow, now exceeding 100,000. The funding level recommended in Senate Bill 1, while up overall, still reduces funding per student. Even if our enrollments do not grow during the upcoming biennium the decrease would be \$189 per full time student equivalent, or 3.9%, compared to the current biennium and \$565, and almost 11%, compared to the last biennium. Needless to say, the more the legislature is able to

appropriate, the smaller can be the tuition increase necessary to fill, or partially fill, the gap.

As indicated above, Senate Bill 1 proposes positive appropriations with respect to formula funding. As you know, it restored the 5 % mandated reduction to the formula funding for the universities and health-related institutions, and to the base funding for our agencies, and it funded enrollment growth for the academics and health related institutions.

Let me emphasize, we appreciate the increase in formula funding. However, even though formula funding is the principal funding vehicle for institutions of higher education, it is not the entirety of our base funding, and Senate Bill 1 makes significant cuts in some non-formula areas. Most significantly, the funds it allocates to service the debt on outstanding tuition revenue bonds for each institution are taken from other parts of that institution's allocation. It takes from one pocket and

puts it in another, resulting in no net new funding for debt service.

This has a large and disproportionate impact on our universities. Prairie View A&M is hit hardest. Its non-formula items were reduced by 58% in order to accommodate its \$8.5 million increase in its debt service, which is associated with projects that were part of the state's commitment to the Office of Civil Rights Priority Plan. The reduction in its non-formula items would have far-reaching and harmful effects on students and programs. Prairie View will have to drastically reduce current programs that are funded from these sources or raise tuition substantially more than would have otherwise been the case. Either way, Prairie View students lose.

While Prairie View is harmed most, our non-formula operating funds were cut System-wide by \$22 million to fund debt service. Many of these non-formula items support the

basic education mission of our universities—faculty salaries, program development, and student services.

As I understand it, these bonds and those of other state universities were issued under legislative authorization, with the understanding that the state policy of providing General Revenue for the debt service would continue. This would not be the case under Senate Bill 1, and would represent a significant shift in state policy. Obviously, restoring the funds necessary to pay TRB debt service is a top priority for us in this session.

Looking ahead, the A&M University System has several new TRB projects across the state. We bring these requests to prepare our institutions, campuses and facilities to fulfill their part of the Closing the Gaps plan. Included are requests for two new campuses that the legislature authorized last session—

one in south San Antonio and one in Central Texas. Each of our other institutions also has requests equally important to it.

Indirectly, the state has another key role in providing financial support for its institutions of higher education. Allowing them to maintain their current statutorily-delegated authority, which was granted by previous legislatures, enables them to operate more efficiently and save funds, which, in turn, can be reallocated internally to support educational programs. For example, maintaining the delegated purchasing authority granted by the 77th Legislature allows our institutions to save millions of dollars in purchasing goods and services. Another example is the statutory authority to operate our own workers' compensation and risk management program. The A&M System program has been cited as a model workers' compensation program by the Texas Department of Insurance in a recent cost study. We can furnish you a copy of that report if you wish.

We also ask you to consider carefully the financial impact of placing new mandates on our institutions without also providing the funding. Examples of previously passed unfunded mandates include the \$1,000 tuition rebate for graduating within four years and the passage of discounted tuition pilot programs. While we support these programs, they do cost money.

Regarding accountability, Senate Bill 1652 and House Bill 3015 granted more authority and imposed substantially higher accountability requirements on our institutions. The presidents and chancellors worked with the governor's staff and the Coordinating Board to establish a statewide accountability system. Boards of Regents have now formally adopted this accountability system.

We welcome greater accountability and we believe this new-accountability system is the preferable way to do so because it is based on performance and results.

There are a number of proposals under discussion to quicken students' time to degree. We support the goal. However, given the varying circumstances of our students, we hope we can work with you to develop a flexible incentive-based program toward that end.

The Governor's Proposed Emerging Technology Fund

In the face of the budget shortfall last session, state support for research declined in the current biennium. Therefore, the proposal by the Governor to establish an Emerging Technology Fund is an important step for both the Texas economy and Texas higher education. The A&M System, through the research conducted by our academic institutions and our research agencies, is well-positioned to help build the

state's research capacity in emerging technology areas. We do recognize that other systems' academic and health-related institutions bring critical strengths to the table as well. With this Emerging Technology fund together we can put Texas institutions of higher education in a position to compete successfully with other states such as California and Michigan for research dollars.

Chairman West and Members, while individual A&M System institutions have additional priorities and aspirations for the session, in the interest of your time and patience, I now conclude my testimony.