

2011 Presentation for the Joint Finance-Appropriations Committee

Prepared Remarks from President M. Duane Nellis

Jan. 24, 2011

SLIDE 1: Introductions

Chairpersons Bell and Cameron. Members of the Joint Finance-Appropriations Committee.

For the record, my name is Duane Nellis, and I'm president of the University of Idaho. It's a pleasure to return for my second appearance before this committee.

My executive team is joining me today, along with: ASUI President Stephen Parrott, from Buhl; ASUI Student Lobbyist Joe Black, from Bruneau; and of special note, Marty Peterson, of my staff, is here taking part in his 35th and final legislative session.

SLIDE 2: Roosevelt on Admin Steps

One-hundred years ago, President Theodore Roosevelt visited the University of Idaho Moscow campus. A century later, his observations ring true. In 1911, President Roosevelt said, and I quote:

“I am especially interested in the University of Idaho ... because I know that the university represents that which shall count in the state tomorrow, and that it makes possible the growth in the 50 years to come. I admire the ideal expressed in your motto: ‘For the training of Idaho’s future citizens to their highest usefulness in private life and public service.’”

SLIDE 3: Bags of Wheat

Roosevelt continues, and I quote: “The university means everything to the state of Idaho.

“You the citizens should not spare yourselves in its support, for you are demanding the best type of worker and the best type of person. Only the university can furnish you such people.”

President Roosevelt understood the significant role of a state university and how it benefits a state’s economy. Incidentally, in this photo, he is standing amidst bags of wheat.

Today, I will talk to you about how the University of Idaho impacts and benefits Idaho’s economy.

SLIDE 4: Student Success

The University of Idaho's priority is to ensure our students' success, and that means providing them with a quality education.

To gauge the quality of our programs, it's helpful to have an outside perspective.

The most recent U.S. News & World Report "Best Colleges", ranks the University of Idaho 153rd in the nation; that's the top 11 percent of 1,400 public and private universities. Among top public schools on the list, we ranked 81st, among our peer schools like Utah State, Montana State and the University of Nevada-Reno. Washington Monthly magazine ranks the University 68th among national universities in its 2010 "College Guide"-- that's second in the Northwest behind the University of Washington. Also, the Carnegie Foundation classifies us as a "research university with high research activity."

SLIDE 5: Economic Impact

Our statewide land-grant university system has a positive impact in Idaho that can be measured.

A study by Economic Modeling Specialists, Inc. -- EMSI -- found that University of Idaho research brings money into the state's economy each year that wouldn't have been there otherwise. And other related University activities and impacts all add up. The bottom line is that: Every year, we put nearly 1 billion dollars into Idaho's economy. That's roughly 2 percent of the state's economy. In other words, we return 9 dollars for every 1 dollar you invest in us.

SLIDE 6: Entrepreneurial Spirit

An entrepreneurial spirit is vital to the land-grant institution of the 21st century. We infuse that spirit into our teaching, research and outreach activities. For example, the research partnership with J.R. Simplot Company at our Parma Research Center is a great model of public-private collaboration, and an entrepreneurial approach to funding new programs. The student-led Vandal Innovation and Enterprise Works, or VIEW program is a university-wide strategic effort to develop Idaho's next generation of entrepreneurial leaders. In VIEW, ideas just aren't part of the classroom; they are solutions for businesses in our communities. And globally, we are working with Chinese universities to establish student exchange programs and shared degree programs. As China continues to emerge as an international economic power, we must prepare our students for work in the global economy, as well as position Idaho for better access to Pacific markets.

SLIDE 7: Jobs

A Georgetown University study found that new jobs in Idaho requiring post-secondary education and training will grow at twice the rate of jobs that require a high school degree. The study covers the decade that ends in 2018. It also showed that 61 percent of new jobs and jobs open due to retirement in Idaho will require post-secondary credentials.

SLIDE 8: Innovative business

Let me share with you how we help develop new businesses and expand ones that already exist. Our work also helps increase the competitive edge of both.

One example is Moscow-based Biotracking LLC, founded recently by Garth Sasser, a former faculty member in Animal and Veterinary Science. The company produces a technology that determines the pregnancy status of animals, including cattle. The 20 dedicated employees of this company ship its technology worldwide and the company reports its sales in the millions of dollars.

At our Post Falls Research Park, we are initiating an applied research program called the Laboratory of Applied Science and Research. Known as “LASR”, it will provide a platform for University researchers to work more efficiently with businesses to find solutions that can improve their profitability. LASR will be entirely self-funded, with funds coming from external grants and contracts. Schweitzer Engineering has already expressed an interest in working with LASR. The firm, as you know, is currently building a new plant in Lewiston.

SLIDE 9: Idaho Geological Survey

Historically, natural resources-based industries have been one of the important focal points of the University’s economic development efforts. For example, look at the University of Idaho-based Idaho Geological Survey. Its researchers are mapping rare earth deposits in Idaho.

This is an ore sample from the Mineral Hill District in Lemhi County. It contains the rare earth element iron-titanium oxide, which is used in products ranging from optical coatings to sunscreen, and even in nanotubes that are used in the manufacture of products such as bullet-proof vests. Through the Idaho Geological Survey, Idaho may have the potential to become a major domestic supplier of rare earth elements. That would have a significant effect on Idaho’s economy, and the nation’s economy as well. And this is a time when many of the rare earth elements are becoming unavailable because internationally countries are buying up rare earth elements.

IGS’s work is an example of how the work of a land-grant national research institution has practical applications and economic impact.

SLIDE 10: Land and Water

On the agricultural and life sciences front, roughly one-third of the state’s wheat grown -- in total -- was developed by the University of Idaho. Wheat farmers in the state benefit from the Brundage wheat variety, also developed by University of Idaho wheat breeders. This variety alone currently accounts for 10-percent of all wheat grown in Idaho. And a new strain of Brundage, also developed by University researchers, is herbicide-tolerant.

Our researchers have developed a solution to the main problem facing Idaho’s aquaculture industry: bacterial coldwater disease. This newly developed and patented vaccine promises to

end industry losses that total some \$9-10 million dollars each year, and should increase aquaculture yields up to 30-percent.

And University of Idaho researchers study improved management of our precious water resources, including research into how rivers transport sediment. This work can help predict how changes such as fires, logging and landslides will affect mountain ecosystems so we can make our forests be both sustainable and profitable.

SLIDE 11: Community

The University of Idaho has leveraged its research and outreach efforts to strengthen student learning and Idaho communities. We do this by investing our very limited resources wisely and partnered with businesses, communities and non-profits.

For example, students from our College of Business and Economics developed a full-scale business plan for an assisted living facility in Cottonwood; our Extension Horizons program continues its partnership with 49 small communities throughout Idaho, helping local leaders build economic prosperity; and the University's McCall Outdoor Science School continues to be a popular destination for Idaho's school children. In fact, last year 2,500 K-12 students and 60 teachers from 37 different Idaho schools participated in programs at MOSS.

The partnerships we created through research, outreach and engagement have earned national honors, including: the prestigious Kellogg Foundation Engagement Award, given this year to just five universities in the country. Earlier this month, the Carnegie Foundation for the Advancement of Teaching recognized the University for outstanding work in community engagement, one of just 115 new U.S. colleges and universities so honored this year. And, the community service work of more than 2,500 of our students totaled more than 136-thousand hours last year. Their efforts earned us a place -- for the fourth straight year -- on the U.S. President's Higher Education Community Service Honor Roll.

SLIDE 12: Strategic Planning

We are making great strides to be strategic in our vision for the University and the future. Last year, I appointed a broad-based committee to update our previous five-year strategic plan. We were fully transparent and inclusive in the plan update, which includes goals focused on new learning, discovery, outreach and the sense of community. More than 2,500 faculty, staff and students reviewed the plan and provided significant input to the final version.

SLIDE 13: Students and Faculty

We also adopted a strategic enrollment management plan to recruit, retain and grow enrollment from 12,300 students today to 16,000 students by 2020. We've already seen sustainable enrollment increases over the past two years, including the two largest freshman classes in our institution's history.

In tandem with enrollment growth, our competitive research enterprise also continues to grow. Last year, the University of Idaho accounted for 72 percent of the total research expenditures of

Idaho's public universities. Our \$87.2 million dollars in expenditures are tracked by the National Science Foundation, which uses expenditures as the standard measure of a university's research health. I credit our faculty efforts as they sought and applied for research funding. Last year, they submitted more than 1,000 research proposals for funding with a total value of nearly \$300 million.

Our research and scholarly and creative activities are broad and vital. For example, Philip Higuera, assistant professor of forest ecology, is part of a multi-disciplinary and multi-university research team that secured a nearly \$4 million grant from the U.S. Forest Service to study fire in sensitive forests around the globe. And earlier this month, microbiologist Carolyn Bohach was named a fellow of the prestigious American Association for the Advancement of Science for her work with E. coli bacteria and her work with our statewide biomedical research network.

SLIDE 14: STEM

One of America's most pressing educational needs is science, technology, engineering and mathematics education -- or STEM. STEM is essential for gaining profitable new industries and jobs in Idaho. But we are hampered as we move forward, because our nation now ranks 27th among developed nations in the proportion of students who receive undergraduate degrees in science or engineering. STEM is an economic and strategic imperative for our state and our nation. It's clearly about Idaho's competitiveness. At the University of Idaho, we have focused strategically on STEM with impressive results.

- Roughly 33 percent of all the degrees we award are in STEM areas.
- By comparison, other Idaho institutions average 12 percent, and our western peers average 25 percent.

It's important to understand that it takes more resources to support STEM programs, but in the long run, they increase the state's competitiveness. Our thanks to the Micron Foundation for its leadership gift of \$1.2 million to help us fuel research on education in the STEM disciplines. We plan to leverage this investment to bring significant additional national investment funds to the University of Idaho -- and to the state -- to further this work in this important area.

SLIDE 15: Enrollment

We've focused our efforts on Idaho high school recruitment to expand the number of students enrolled in our STEM and other important academic programs. I am pleased to tell you that this year we had the second-largest freshman class in our institution's history. One-third of all incoming freshmen are the first in their families to attend college. And our average entering freshman this year came in with a 3.4 grade point average. An impressive measure of student quality is found in our National Merit Scholars: these are the top 1 percent of all high school students in the nation. We added 22 new National Merit Scholars this year, for a total of 81. In the Northwest, only the University of Washington has more.

During these tough economic times student financial aid packages are an important recruitment tool and help us address our interest in enhancing accessibility. We are strategically investing in

the top academic students who show financial need. In total assistance this year, we awarded more than 5,000 strategic financial aid packages, which includes roughly \$12.5 million in University of Idaho-provided scholarships.

SLIDE 16: Retention and Beyond

The University is about student success and statewide leadership. We keep our students in college, and we help them work toward a degree. We've increased our retention rate for freshmen returning as sophomores to 81 percent; the average retention rate of Idaho's four-year institutions -- excluding the University of Idaho -- is 61 percent. And, we graduate students at twice the rate of any other public institution in the state.

SLIDE 17

Now, let me turn to the resources and budget we need to continue to serve our students and the state. This is so important because providing excellence in education and research that serves our state requires investment.

SLIDE 18: Total Budget: Revenue

For Fiscal Year 2011, our total operating budget is \$453 million. Of that amount, 23 percent of our budget -- or roughly \$104 million -- comes from our state general fund appropriations for general education, Agricultural Research and Extension, medical education, and other special programs. External funding sources -- including grants, contracts and federal support -- make up 42 percent of our budget or, \$188 million. These funds are the biggest part of our budget. They are obligated to federal, state or private research grants, or to federal and state financial support for students, such as Pell Grants.

Let me note that the legislature provides higher education with lump-sum spending authority, rather than using standard expenditure classifications. This degree of flexibility is very important for us. With the wide range of our statewide programs and operations—and our various sources of revenue -- it is essential that we have as much latitude as possible to develop our budget and ensure budget efficiency.

SLIDE 19: Budget: Expenditures

This next chart shows total expenditures for FY 11, and how those were allocated. It covers the entire range of the University of Idaho's operations. Clearly, instruction, and scholarships and fellowships are a large part of the total.

SLIDE 20: Gen Ed Budget: Revenue

Our general education budget for FY 11 is \$140 million, out of our \$453 million total budget. Our share of the state general fund appropriation that you make to the State Board of Education is \$73.5 million, or roughly 53 percent of our general education budget. In addition, we received \$7.7 million in dedicated funds, including \$6.2 million in land endowment earnings, and \$1.5

million in federal stimulus dollars. Other sources of general education revenue are \$30.7 million from our matriculation fees, and \$58.5 million from other fees, like non-resident tuition and professional fees

SLIDE 21: Gen. Ed Budget: Expenditure

As I mentioned earlier, providing excellence in education and research that serves our state is not without a cost. More than 72 percent of our general education expenditures go toward personnel costs. A small amount goes to our partnership with the Center for Advanced Energy Studies or CAES, along with ISU, BSU and INL. If the governor's recommendation for the CAES is approved, this will no longer be one-time funding. And we hope this happens, because CAES continues to win research grants, provide jobs, and help the nation meet its energy needs.

SLIDE 22: Net Assets

Appendix 510 E of the Legislative Budget Book addresses net asset balances at each of the institutions. Because of the technical definitions and financial reporting standards required by governmental accounting professionals, our financial statements list funds as "unrestricted net assets" that are, in fact, either contractually obligated or have been designated by management for specific uses, such as research and academic programs.

The actual amount of unrestricted funds available without designation is relatively small. The University of Idaho's reserves are \$3.8 million, or 1.1 percent of our operating expenses. This is well below the new State Board of Education goal for a 5 percent reserve.

I understand that there is concern among a number of legislators about the terms and figures used to define unrestricted net assets. The State Board of Education and the institutions have spent a considerable amount of time working on this issue. Through the Board and Matt Freeman, we are prepared to provide you with any additional information you might require.

SLIDE 23: Managing Costs

We have been thoughtful in using a variety of management methods to help manage costs. Perhaps our most effective control measure has been a strategic hiring freeze which we started in FY 09 for most of the University and continuing in various ways. Later today Dean John Hammel will discuss hiring and personnel impacts on the Agricultural and Research Extension Service.

Prior to the University's hiring freeze, we had 623 full-time faculty on state-appropriated funds in FY09; we now have 579, a reduction of 44 regular faculty. For staff, we had 723 full-time staff in FY09 on state-appropriated funds; that number is now 687, a reduction of 36 positions. These reduction figures do not include numerous part-time and other positions that were consolidated and eliminated for a total reduction of 130 FTE from the general education budget.

In addition, this figure does not include the 73 FTE cut from the Agricultural and Research Extension Services, which brings the total University cut to 203 FTE.

Our statewide mission means that travel costs are part of how we do business. To help control those costs, in FY 09 we implemented reduction on funded, except for mission-essential activities. The freeze on hiring and the reduction in travel have been important management tools, but these short-term cuts are not sustainable.

As you've seen, the University is growing --including our research enterprise, enrollment and reputation -- and additional cuts will impact not only our future, but that of the state itself.

Because the University of Idaho is one of the oldest state agencies--with 70 physical locations statewide -- deferred maintenance is a growing concern. Our total deferred maintenance exceeds \$200 million and with our declining resources, this situation will continue to challenge us.

SLIDE 24: Other Funding

The people of the University of Idaho --faculty, staff and students -- are a remarkable community. That's one reason why the efficiency steps we took -- including position reductions--were so painful.

We also implemented furloughs for most University employees and saved about \$1.2 million to meet FY10 budget reductions and state holdbacks. The furloughs helped to better position the University for FY11. We restructured three of our colleges as well -- Natural Resources, Education, and Art and Architecture. Departments were merged or eliminated with the realignment of staff and faculty resources. We also eliminated 35 programs as we focused on the University's areas of academic strength.

As stewards of our resources, we have also been able to realize \$1.2 million in energy savings. And, we continue to look for areas of synergy with schools near our various statewide centers. For example, we work closely with ISU, BSU, and BYU-Idaho and with Washington State University through collaborative programs.

The University of Idaho continues to look for alternative funding sources, with a special focus on self-sustaining and cash-funded programs, such as summer session and distance education. An increase in our fees helped to offset part of the reduced state appropriations.

At the same time, we remain sensitive to affordability and accessibility. In fact, we remain the second most affordable of our peer institutions in fees, with only the University of Wyoming more affordable, because of significant state subsidies. The University has continued to grow its externally funded research activity, which results in additional finance and administrative overhead funding from the granting agencies. In turn, this helps to cover institutional operating costs -- particularly the costs associated with the support of research activity.

SLIDE 25: FTE

One of the measures we've been asked to address by the State Board of Education is the funding per student that the Board of Education uses in its fund distribution formula. The Board calculates that the University of Idaho's share of general education funding is \$3,593 per

weighted FTE for FY 10. This reflects the distinctive type of instruction we provide at the University of Idaho -- and in fact teaching the sciences, intensive research, and STEM, have higher costs associated with them.

SLIDE 26: Budget Book

The State Board of Education has requested that we address our FY 12 budget requests as submitted. The FY12 request begins on page 1-43 of the Legislative Budget Book. As you know, with few exceptions, this appropriation goes to the State Board of Education as a lump-sum that's divided between the four institutions by a board-developed formula.

On page 1-46 -- under inflationary adjustments, and as instructed by the State Board of Education -- the University of Idaho has requested a 4.1 percent inflationary increase across the board, as well as \$257,400 for the inflationary costs of library books and periodicals. After our inflationary request, you can see our request for replacement capital outlay. This \$2.3 million will be used to fund such items as replacing our aging computers, telecommunications equipment, lab instruments and other equipment.

On page 1-47 -- under nondiscretionary adjustments -- you will find the request to fund the enrollment workload adjustment. The University of Idaho's share would be \$815,300 from the total request of \$8.4 million.

On page 1-48, the University of Idaho is requesting \$1.2 million for occupancy costs.

On page 1-49, we are pleased to support the Governor's request of nearly \$1.6 million for the Center for Advanced Energy Studies that will be divided between the three partner universities. CAES' success is a model of collaboration, and over the past two years, the partners generated \$23.8 million in non-state awards for CAES programs. This is a tremendous return on the investment.

This year we are requesting funding for another collaborative program listed under the Biomedical Research Initiative. The three partner universities and the Boise Veterans Affairs Medical Center are developing a collaborative biomedical research program. The goal of this program is to increase graduate education in biomedical fields in Idaho and to establish a critical mass of innovative, productive biomedical researchers at the VA Medical Center in Boise. The total general fund request is just over \$2 million, of which the University of Idaho's share is \$670,000. Like CAES, the return on this investment would bring countless benefits to the state.

SLIDE 27: Demand for Higher Ed

Let me turn to our ability to address the demand for higher education. First, the funds we need to maintain current operations.

According to the State Board of Education -- not counting unfunded occupancy costs -- we would need to increase our student fees another 8 percent just to cover unfunded maintenance costs for operations items. If we were to cover unfunded occupancy costs with student fees, we

would need a total fee increase of 10.2 percent overall. And, if CAES were not funded, that's another 0.8 percent to our overall fees. The total fee increase would be 11 percent, if we covered the cost of unfunded maintenance of current operation items.

But as the cost of attending college increases, so does the level of student debt and we're very sensitive to this. We make every effort to provide the necessary financial aid to students in need. As I said earlier, we provided \$12.5 million in University of Idaho-based scholarships beyond state and federal funds.

The University of Idaho also has a long list of facility needs to meet not only current student demand, but also to allow us to prepare for future enrollment growth. While I have mentioned our \$200 million in deferred maintenance needs, we also need new or renovated facilities throughout the state.

The Idaho Center for Livestock and Environmental Studies continues to be a priority, as does our joint facility in Coeur d'Alene with North Idaho College, Lewis-Clark State College and the University of Idaho. And on our main Moscow campus, among the needs is a new science building to house a wide-range of cross-disciplinary laboratory facilities. These needs are not only significant, they also are critical needs.

This is because we must strive to meet the State Board goal to have at least 60 percent of Idahoans aged 25-34 have a college certificate or degree by 2020. Once students are here, we are committed to help them succeed in their studies and graduate to lead our future. Adequate facilities need to be available to our students. This will require significant investment to create the capacity to achieve the goal.

SLIDE 28: Motto

So, let me circle back to where I started, and how Teddy Roosevelt admired the ideal expressed in our motto: "For the training of Idaho's future citizens to their highest usefulness in private life and public service." It's engraved in the entryway to the University Administration Building and has guided us for the past century. It continues to inspire us today.

SLIDE 29: Legacy

Service is illustrated through the story of an alumnus who reached the pinnacle of leading and serving. That happened last October when General James Amos was sworn in as the new commandant of the U.S. Marine Corps and a member of the Joint Chiefs of Staff. He grew up in Wendell, Idaho, and graduated from the University of Idaho in 1970, where he earned both a finance degree and a military commission in our ROTC program.

We talk about the University of Idaho's legacy of leading: well, here's an excellent example! General Amos is a perfect example. We are proud of his commitment to his country and honored that he models what he learned at the University of Idaho. He is truly an extraordinary leader. And, he is among the many prominent University of Idaho alumni who serve this state and our nation — in both the private and public sectors.

He and many others are the reason why we believe that your investment of state funds in higher education is one of the single-best investments you can make.

SLIDE 30: End

Thank you. I would be glad to respond to your questions.