



## **Testimony of Wayne State University**

Presented by  
Allan Gilmour  
President

Before the Joint Hearing of the  
House and Senate Appropriations Subcommittees  
on Higher Education

Chaired by  
The Honorable Robert Genetski  
and  
The Honorable Tonya Shuitmaker

March 30, 2011

Good morning, Madame Chair and Mr. Chair, senators, and representatives.

As some of you know, I have been Wayne State's president only a short time. My working career was with Ford Motor Company.

I came out of retirement –for the second time—to be interim president of Wayne State because I felt I could help the University achieve greater stability following some leadership changes. I decided to stay on as permanent president because I became convinced of the power of higher education, its importance to Detroit's and Michigan's future, and the strength and potential of Wayne State. I agree with Governor Snyder—our state universities are world-class assets.

And they play a key role in Michigan's economic recovery. By educating our young people. But there's more. By helping build our communities. By pioneering products and ideas. By training entrepreneurs and creating businesses opportunities. We must keep this in mind as we look for solutions to our current economic challenges.

I began my tenure by learning, or perhaps “cramming,” to get an honest assessment of our assets, our challenges and our opportunities. First, I spoke with key faculty to get their perspectives. I came away impressed and enthusiastic – about their talent and dedication. My next step, as a recovering financial officer, was to examine the University's liquidity and cost structure. To get a detailed understanding of the numbers. I learned a great deal in a short time, much of which pointed to responsible financial management.

I was pleased to find we have a strong credit rating—double-A minus.

I was pleased to find we have no retiree health plan and no defined pension plan. And, therefore, no unfunded liabilities.

I found we had recently overhauled our health care costs. Over the past five years, the average increase in medical costs for Wayne State was 2.7 percent, compared with the national average of 11.4 percent. Wayne State employees' share of medical plan costs is 28 percent.

I found that our administrative costs, measured as a percentage of total costs, were among the lowest of the state's public universities. And these costs have decreased as a percentage of our overall budget over the past several years.

I found that we have permanently reduced our operating expenses by more than \$50 million annually—taking such actions as:

- combining two colleges and eliminating another;
- eliminating more than 200 positions;
- eliminating and consolidating departments;
- implementing purchasing and hiring freezes;
- instituting wage freezes for some non-represented employees;
- refining our purchasing strategies;
- eliminating some expense reimbursements;
- and deferring even the most basic maintenance of our infrastructure.

But I found other things that were not as positive. We haven't provided the highest quality of support to our students or to our faculty. So we have brought in a consulting team to analyze and fix our administrative processes. This is not a “big think” or “strategic” analysis. It is a detailed, objective look at all of our administrative processes to find inefficiencies and impediments and get rid of them.

I found a high and growing backlog of deferred maintenance. We have had a very limited financial ability to do some of the most basic maintenance of our infrastructure.

I found no financial reserves set aside, except for a rainy day fund of slightly more than \$19 million. If the rule of thumb is that a rainy day fund should be 10 percent of the budget, we are well short of the target.

I found our retention and graduation rates were not acceptable. This is partly because many of our students don't fit the traditional profile—we accept more high-risk students; more working students; more economically challenged students; more students with family obligations. In some cases they won't succeed. In other cases, they take longer to graduate than the old benchmarks predict.

We are making progress on this issue. Several years ago, my predecessors implemented a number of programs to improve retention and graduation rates. They are working. Our freshman-to-sophomore retention rate rose from 69 percent in 2006 to 77 percent in 2009. This is on par with other state universities, on average. We expect this rate to improve to 82 percent by 2014, which would place Wayne State in the top quartile of Michigan's public universities. This kind of support, involving extensive and personal work with students, is the right thing to do. But it costs money, and we'll need to spend more next year.

But, above all else, I found a strong and vibrant university. With nearly 32,000 students, many of whom represent the future of our state. And all of whom I am proud—and Michigan can be proud, too.

I found a research university with more than a quarter-billion dollars of research spending, much of it federal dollars spent in our state. Research that contributes to new technology, economic growth, and discoveries that save lives. The Carnegie Foundation for the Advancement of Teaching ranks Wayne State University in its highest category for research activity. Only about 2 percent of the nation's more than 4,600 colleges and universities share this distinction.

I found a university with a strong faculty—one that we are working to strengthen further by recruiting high quality new professors to Michigan.

I found a proud family of alumni, 75 percent of whom live right here in Michigan.

I found a university that is an asset to Michigan. Perhaps one that is underappreciated, but one with great potential.

The best way to fulfill that potential is to be great at our most important task—educating students. We've been doing that for nearly 150 years now, and we have a strong record of success.

But we help Michigan in other ways. Increasingly, Wayne State is a major factor in Michigan's economic progress. We are Detroit's sixth-largest employer. In Midtown Detroit, our economic impact can be seen in many ways—from efforts in public safety to local purchasing, to business development, residency incentives and building projects. Midtown—our neighborhood—is growing, and much of that growth is due to Wayne State.

On the edge of our campus is TechTown—Wayne State's research park and business incubator. It was founded in 2004, and now serves more than 230 companies. That makes it the largest business incubator in the world. Right here in Michigan.

Since 2008, TechTown has trained almost 1,000 new entrepreneurs. Many of them through the FastTrac to the Future program—a multimillion-dollar project funded by the New Economy Initiative and the Kauffman Foundation.

Our research contributes to the state's economy. The discoveries we make; the technology that finds its way to commercial applications; the treatments and cures—all of these help our economy and our citizens. Sixty percent of our research is related to health care. And much of this new knowledge has national and international applications.

The Governor's proposal calls for a reduction in the higher education appropriation of nearly \$300 million for the 2012 fiscal year. Wayne State's share of that is \$45 million. If this proposal is adopted, our state appropriation will be essentially the same as it was in 1989.

If I can borrow from my past experience, the sticker price for a Ford Escort in 1989 was approximately \$9,300. In 2011, a Focus, the Escort's replacement, retails for nearly \$17,000. The world has changed. Things cost more today than in 1989.

I've had experience with major cuts in the past. Some very serious. None were as serious as this last downturn, where U.S. auto sales fell from 17 million to 10 million. The cuts all through the auto industry and related

industries were painful, but they were understandable. But it's a different situation in higher education. We have more customers, not fewer. Enrollments are up, or stable. Wayne State's credit hours are at an all-time high—up by more than 8,000 hours per year from five years ago. Our research is more productive than ever before. Our economic impact is undeniable. Yet, because of the decline in state appropriations, we are facing the kind of cuts one might expect if our "business" was collapsing.

And we can't escape the fact that cuts in appropriations directly relate to higher tuition. Unfortunately, in the face of increasing costs and diminishing state funding, tuition increases have been unavoidable. Ten years ago, tuition paid by our students covered roughly a third of the cost of their education. State appropriations covered two-thirds. Today, that ratio is reversed. Our students now cover two-thirds of the cost, and the state covers one-third. And that two-thirds is after we expanded student financial aid three-fold.

Our students are being asked to bear an increasingly heavy burden. But tuition increases have been the only way to balance the books and preserve the quality of the education we offer.

Despite that, Wayne State's undergraduate resident tuition is still relatively low—13th among Michigan's 15 public universities. And by far the lowest of Michigan's three major research universities.

So it's appropriate that we ask ourselves—before it's too late—is this right?

Are we treating Michigan's universities as assets, or just costs? Are we laying a solid foundation for the future? Or applying a quick fix for today? These are serious questions.

If universities were businesses, the state would be fighting to keep them in Michigan. They employ tens of thousands of men and women. They educate our young people. They build communities and create opportunities. They stimulate the economy and discover new technology. All things we want businesses to do.

Many have spoken of the value of Michigan's public universities.

But recent history and the reductions we now face don't show it. If we want to improve the economy, we should be discussing investment in higher education—not a reduction of support.

Michigan ranks 42nd in per capita funding for higher education. We are dead last in increases to higher education over the past decade. In 2010, Michigan's state support per student was \$4,822. The national average that same year was \$6,454. Under the proposed budget, state support will drop to \$4,098, assuming no increase in enrollment -- third lowest in the nation.

This isn't a recipe for recovery. This is dangerous.

We understand the need for shared sacrifice. And we understand you have a difficult job ahead of you.

But I urge you, as you tackle these tough issues, to reconsider the tuition incentive in the Governor's proposal. I cannot predict what will happen to tuition, but we need the flexibility to preserve the quality of our universities. I also urge you to reconsider the magnitude of this cut. Especially for universities like Wayne State, which are much more reliant on state appropriations because of past tuition restraint. Prior to the Governor's proposal, we expected a difficult challenge. We were preparing for a cut—perhaps naively—of 10 percent. At the time, that seemed very difficult, requiring some significant restructuring. But it seemed achievable. Perhaps that figure is a reasonable consideration.

Our universities are a source of pride for our state. But they are much more. They are a source of great opportunity—for students, for the state, for the world. We know it. We say it. But we have to mean it.

Thank you.