

Testimony of Robert Barchi  
Rutgers, The State University of New Jersey  
Before the Senate Budget Committee  
April 8, 2014

Good morning, Chairman Sarlo. I'd like to thank you and all of the members of the committee for inviting me here today to discuss the implications of the proposed fiscal year 2015 State Budget for Rutgers, and to provide some insights into how Rutgers University—across all three of our campuses and at Rutgers Biomedical and Health Sciences—is serving New Jersey by conducting cutting-edge research and, as is our fundamental mission, educating our students.

You have, in the packets in front of you, a copy of these remarks, a publication entitled, “Great Things to Know About Rutgers,” and the recently adopted strategic plan for Rutgers—the first strategic plan for the University in two decades.

“Great Things to Know About Rutgers” provides an overview of the University and highlights important information that many people simply don't know, including:

- We have nationally ranked, top-10 academic programs in oceanography, philosophy, discrete math, criminology, and quantitative finance, to name a few.
- Last year our faculty awards included a MacArthur “Genius” award and the equivalent of two Nobel Prizes in marine sciences and agriculture.
- Rutgers is in the top 3 universities in the nation behind Harvard and Michigan in students receiving Fulbright Scholarships.
- We have 1,600 active U.S. and foreign patents, and helped create more than 100 spinoff companies.
- Rutgers now conducts more than \$700 million in research & development each year, and we are ranked #1 in the nation for total research activity in chemistry, #4 in social sciences, and #6 in mathematics.
- Rutgers is a leader in renewable energy—#3 in the nation among universities in solar energy.
- And, in terms of world impact, a test developed by our New Jersey Medical School's chief of infectious diseases and approved just last year has cut the time it takes to confirm a tuberculosis diagnosis from weeks to just two hours.

I have enormous pride in Rutgers, and I know that the members of the Legislature and the Governor do, as well. “Great Things to Know About Rutgers” demonstrates that this pride is well deserved, and I hope you share with others all that we are doing at Rutgers, The State University of New Jersey.

The second document in your packet is our strategic plan for the next five years. As the plan's title emphasizes, we have reached a unique point in our University's long history

Because of the confluence of several factors, this is, indeed, a singular moment for Rutgers:

- As the eighth oldest university in the nation, we are approaching our 250<sup>th</sup> Anniversary.

- We have completed one of the largest and most complex integrations ever attempted in higher education. The new Rutgers now ranks among the nation's top comprehensive public research universities.
- We are entering the Big Ten and have already been embraced by its academic counterpart, the Committee on Institutional Cooperation (CIC)—a group of some of the most outstanding research institutions in America.
- And we have already begun the largest comprehensive capital construction program in the history of the University, thanks in great part to your willingness to place on the ballot the Building Our Future Bond Act.

Our 250-year history makes Rutgers one of the few colleges or universities in the nation that stretch back as far as the American Revolution. 150 years ago, in 1864, Rutgers was selected to be New Jersey's land grant institution. Nearly 100 years ago, we opened a college for women that prefigured our becoming one of the most diverse universities in America and one of the educational leaders for women's history, leadership, and political engagement. And a little more than 50 years ago, Rutgers became the State University of New Jersey.

In addition to being one of only 34 public university members of the Association of American Universities, Rutgers' research expenditures now rank us among the 30 top public research universities in America. We now have major biomedical and health sciences units known for clinical and research excellence and a footprint, not just in Camden, New Brunswick–Piscataway, and Newark, but in every county in the state and in every legislative district.

And while our physical footprint indeed stretches from Cape May to High Point, as a member of the Committee on Institutional Cooperation, our intellectual footprint extends internationally.

The move into the CIC was made possible only through our membership in the Big Ten. As a member of the CIC, the AAU, and the Big Ten, Rutgers is where it belongs: among the most academically renowned universities in the nation.

As you may already know, because of our CIC membership, we are now invited to take part in teaching and research collaborations, to share library resources, and to make joint purchasing arrangements with these outstanding schools.

Now our students will be able to borrow from the libraries of these fellow research universities, take foreign language courses that may not be taught at Rutgers, and choose from a wide array of new options for study abroad.

When I was with you last year, much of the focus was on the integration of UMDNJ into Rutgers. Let me assure you, the integration has progressed according to our plan. It required a major financial investment from Rutgers in the past year—a tremendously important and beneficial investment, but an investment that heavily strained our financial reserves. This is an investment that will be important for the University and for the people that we serve, but one that has significantly drained our coffers.

The integration, which included the transfer of two medical schools, a dental school, a nursing school, and four other health science schools, the combination of two very different

employee populations and administrative structures, the defeasance and refinancing of hundreds of millions in debt, a roughly 50 percent increase in the size of our operating budget, and the acquisition of a several large and complex clinical practices has already cost the University more than \$50 million. There will certainly be further spending required to fully achieve the goals of the enabling legislation.

Additional spending will be a challenge because, as you know, the appropriation for Rutgers and for higher education in the proposed State budget is essentially flat. The proposed budget appropriation for higher education this year is the same today as it was in the mid-1990s. Since that time, enrollment has grown dramatically, the costs for salaries and benefits have increased, and so have the costs for energy and virtually every other aspect of running a successful college or university in New Jersey.

At Rutgers, in the last year prior to the integration, the FY13 direct State appropriation was less than what the University received in FY95, without even adjusting for inflation or enrollment growth. In other words, for the typical 18-year olds entering Rutgers last year, the direct State appropriation to Rutgers for education was actually greater in the year of their birth than it was in their first year at our state university. Needless to say, tuition has had to increase significantly over that time just to compensate for the shortfalls in State support.

We are educating some 14,000 more students at Rutgers today than we did twenty years ago—and without any increase in State support. That's the equivalent of an entire new major university. By comparison, the State budget has more than doubled during the same period.

To see this through the lens of a tuition paying student or their parents—twenty years ago student tuition provided roughly 30 percent of the cost of Rutgers education, while State support totaled 70 percent. Today that ratio has essentially flipped—students now pay 70 percent of the cost of their education through tuition while State support makes up 30 percent of that cost.

Of course, these are tough times, and we are prepared to do our part. Rutgers is the State University of New Jersey, and we receive about 20 percent of our budget from the State. We are proud to meet the challenges of being one of the nation's leading public research universities, and the largest single institution of higher education in New Jersey, producing the educated citizens and innovators that our state so desperately needs.

Let me assure you that we have also been working hard to diversify the University's revenue base. While State appropriations for legacy Rutgers dropped on average 2.4% every year for the last ten years, the average growth in research for legacy Rutgers was 8% per year and philanthropy grew an average of 3.8% per year over the last decade. Fundraising last year was the second highest to date, and we are on target to set a new annual record in excess of \$140 million for Rutgers this year. We hope to successfully conclude our \$1 Billion campaign next January, a record for Rutgers. But as New Jersey's state university, the funding that the State provides is still a critical component of our budget and one that helps keep a Rutgers education affordable. So we urge you to continue to invest in higher education in New Jersey.

Last year, the Legislature began to make separate line item appropriations to the three Rutgers campuses. The appropriation for Rutgers University–Newark was \$31.8 million and the appropriation for Rutgers University–Camden was \$17.4 million.

I understand that this new approach was intended to address some perceived, historical inequities and imbalance between and among the campuses. Certainly each of the campuses thought that it was somehow supporting the others. Under our new budgeting system, known as responsibility center management or RCM, which is in its final stages of implementation at Rutgers, all revenues and costs associated with a campus, department, or function will stay with that unit, as will the incurred expenses. Last year, we developed collectively a formula for distributing state support across our campuses that recognizes each campus' activity in education, research, and community service. The State used this formula last year to determine its campus line items. The formulae for assigning expenses are currently being finalized by the chancellors of the campuses and RBHS in a way that is transparent, collaborative, and eminently fair. There will be no cross-subsidization.

I urge the Legislature not to modify the current split. As I mentioned before, we have very little margin in our operating budget. Moving funding from one campus to another could have a significant and substantial impact on the reputation of the entire University. Drawing further amounts from our central budget—which, by the way, means not only redirecting funds for administration of the entire University, but also taking operating funds from our largest campus in New Brunswick–Piscataway—is likely to mean that the program cuts at our largest campus would have an impact on the reputation and performance of the entire University. More important, though, such a move would undercut the hard and thoughtful work done by all of the campus leaders to arrive at what we believe is an equitable, quantifiable, and predictable approach to the distribution of the State appropriation.

Respectfully, an arbitrary change in this distribution could drag the entire University down. Any short-term perceived local benefit would have a long-term impact on the entire University and would harm all three campuses and our biomedical units.

If there is a desire to increase funding at any of the campuses, I urge the members of the Legislature to appropriate an additional amount, or amounts, for specific purposes at those campuses, but to please refrain from moving money around within our flat funding base. To do so would only upset the current balance that we have collectively achieved.

I would like to close by discussing Rutgers athletics, the Big 10, and what I believe the future holds.

The future is exciting, not only because of the academic advantages of the CIC, which I mentioned before, but also because of the enhanced level of athletic competition and national exposure that our entrance into the Big Ten brings.

But, especially important to me, the future is exciting because our entrance into the Big Ten will bring us to a position where intercollegiate athletics at Rutgers will be self-supporting.

Since this is the Senate Budget Committee, I would like to give you a broad understanding of the financial relationship with the Big Ten, a relationship that will bring more financial resources to the University...but not for several years. In fact, Rutgers will only begin to receive a full share of television network revenues from the Big Ten beginning in 2021.

Our first full payment at that time, based on the revenues publically reported by other Big Ten schools today, would be in the range of \$26 million. This is a projection; the actual

revenues will depend on a number of factors, including the value of television rights and fan participation. However, that revenue would essentially allow us to balance the athletic budget, so current subsidies can be redirected to support our academic programs.

The important financial point to keep in mind is that, as beneficial as we believe our entrance into the Big Ten will be, we are not receiving an immediate windfall from joining the Big Ten. In fact, for the next several years, our revenues will only mirror those we were projected to receive through our membership in the former Big East. Even this lower number, however, is well in excess of the revenue currently generated by the Big East's successor league, the AAC. Prior to making the decision to pay an exit fee and withdraw from the American Athletic Conference, we carefully analyzed the business case for this move. Joining the Big Ten required a one-time expense to exit the AAC of \$11.5 million, but the internal rate of return (IRR) over a 10-year period for exit from the AAC and entry into the Big Ten exceeds 95 percent. Clearly, this is a return that would be the envy of any business person or analyst.

I believe that was a good investment, a sound business decision to help Rutgers Athletics to become self-supporting.

There were other one-time investments, as well.

In April 2013, Rutgers decided to terminate a 13-year marketing relationship with Nelligan Sports Marketing that generated, over that period, approximately \$30 million for the University. The cost for cancelling the remaining years of that contract was \$7 million and the contract would have otherwise continued until 2017.

Shortly thereafter, we entered into an initial 11-year, \$65 million agreement that will partner the University's athletic programs with collegiate marketing giant IMG College. This new agreement includes an option to extend the partnership for an additional 3 years and generate an additional \$22 million, or a projected guaranteed revenue total of \$87 million over 14 years.

The new agreement will more than double the revenues to the University and will capitalize on enhanced opportunities for national corporate support.

Over the first 11 years of this new contract, the internal rate of return (IRR) is 84 percent. This too, is an extraordinary return, and the one-time cost of contract exit was a sound and carefully considered business decision.

Both of these are essential business investments that are a part of our program to enable Rutgers athletics to operate from a position of financial stability.

Driving down the structural subsidy to D1 athletics is a focus of the University administration and our Boards. The one-time costs that we are incurring during this transition period will provide us with the ability generate the stable, predictable, and growing revenues that will minimize the subsidy going forward.

We are currently reviewing all of our contracts, purchasing agreements, and corporate service practices throughout the University with a keen eye toward how we can be more efficient and more effective in all our practices. Just as with athletics, we believe that there

are many other areas in which investment now will reduce costs and yield returns in years to come.

Chairman Sarlo, I am happy to answer any questions that you or any of the members of your committee have.

Thank you.