It's truly great to be here today to welcome members of this year's Senate to a new academic year and to report on the state of the University. I always look forward to working with the Senate leaders, Chair Joel Cohen, Chair-elect Art Popper, members of the Senate Executive Committee and Senate representatives of our community.

For the past five years I have come to this Senate meeting and spoken about the extraordinary accomplishments of our university community and outlined plans for the coming year. It is important to the life of a community like ours to take every opportunity to thank the people who have contributed so much to advance the University—recognize the too often unsung contributions of those who make the place operate smoothly every day, those who carry us in times of crisis, and who create the environment and ambiance of a great institution of higher education.

This year, however, the University faces special challenges. And much appears to have changed over one short year. Some may be wondering if we have changed our aspiration or if the state and the Regents have changed their expectations of us. The short answer is no.

But we need to spend a moment to set the current context before beginning a discussion on our direction. To satisfy both the need to recognize the special contributions of our community and to talk about our direction and circumstances, I have decided to post an Overview of Accomplishments for 2002-2003 on the web and not speak about them today. It recognizes just a few of the many extraordinary contributions of campus people and units during this past year, which have continued the remarkable pace of our achievements. When you read it you will be inspired by what has been achieved. Please spend a few moments on it. I have also submitted a text copy for the Senate archives. I must say I regret not being able to thank faculty, staff and students who consistently put so much of themselves into our success. It ranks among my most pleasant responsibilities. I will do so later personally.

But in the few moments we have together attention to our direction and circumstances created by declining state support is called for. The challenges we face are both cyclical and structural. The cyclical are the same old problems but the structural are new. They stand against our mandate to build a great university here. I have been discussing this situation with the Regents, the Chancellor, and our deans, and I have been very impressed by their very strong, across-the-board support for our continued drive to build a great university here.

To help us understand where the University is going, it may help to start by looking at the course of higher education nationally. The flow of a stream is a useful simile for the long-term course of higher education. Imagine that you are sitting on leaf in a flowing stream. From that perch it is hard to tell which way the stream is going. You may be flowing downstream or going nowhere trapped in a vortex behind a rock or captured in a back eddy that is actually moving upstream. Only by rising up over the stream can you get an accurate picture of where you are and where it is going. And when you rise high enough you can even see where it has been before and possibly where it will go next.

So where is the stream of higher education flowing nationally? A little bit of history may be helpful. A century ago public higher education served society. Land-grant universities were created to support economic development of the states. They were supported by the states to serve the states. Their timely mission was agriculture, the mechanic arts and ROTC—the essence of their mission was economic development of the states in this new country. They did not focus on students and alumni. Early on there were few dorms, student unions, health centers, recreation centers, and other services provided to students. The Greek system was founded to support student life needs that universities largely ignored. Alumni associations were also created independently from the university in most cases, and often in spite of the university. Athletics brought alums back to campuses in great numbers, but not so for academic programs. Universities did not see that care and support of students or alumni was their role. Tuition was insignificant and private support miniscule. That muted the external voices and damped expectations of students and alumni. Fund raising was even prohibited in some public universities. As a consequence, the states "paid the piper" and they "called the tune."
That arrangement lasted until about 50 years ago when the national responsibility for basic research was passed to universities under funding from the federal government. The research service provided by universities gained a new and growing master - the federal government. And subsequently, the corporate sector and others outside the university joined in the sponsorship of research.

Since that time the flow of the stream has encouraged even greater attention to building a research enterprise, funded by non-state sources, into the fabric of the campus at all levels. As a consequence the state no longer fully paid the piper and called all the tunes. And the states were not unhappy about it.

Then about 25 years ago, the states began withdrawing their support from teaching and service as measured by the fraction of state budgets devoted to higher education. As a consequence of this pullback, public universities took two steps under the encouragement of the states: (1) They began to charge students more than nominal tuition, and (2) they began to raise private funds. And both of these actions have increased steadily ever since with encouragement, if not prodding, by the states.

As students began to pay the piper, their expectations for what they would get increased too - they too wanted to call some of the tunes. And so it was with private benefactors and their need to develop a continuing relationship with their university beneficiaries.

The states have enthusiastically welcomed these actions in most instances. They see non-state support as a means to provide high quality education at reduced cost to themselves. As a consequence, still others are calling our tunes. I don't believe the states fully realize how they are changing the basic mission of the universities that serve them. When you look down on this flow from on high, you see where we've been as well as where we are and can guess pretty well where we are headed. "You can't go home again," describes our circumstances quite well.

The withdrawal of the state from financial responsibility for higher education is quite striking. You might even ask, "are we still a state university?" since we respond to the interests of so many others that we largely ignored at the beginning. Well yes I believe so, possibly 26% of one anyway, since that is the fraction of the operating budget paid by the state. We were 34% of one when I became president five years ago.

Who should pay for "free services" that the university provides on behalf of the state - those that were fully paid for by the state in earlier times - now that the state is pulling back from supporting them? Our students through their tuition? Beneficiaries of these services? Direct state appropriations? Can they even continue on any substantial scale? Is it realistic to expect students to support services without sponsors any more than it is to expect research grants to support them? I think not. These rhetorical questions serve to illustrate how our changing funding base is permanently altering the university's founding role as a servant of the state.

We are in transformation; there is no doubt about it. A recent editorial in The New York Times (August 26, 2003) picked up on the trend, lamenting that "Public colleges and universities, which grant more than three-quarters of this country's degrees, have been steadily undermined by state budget cuts and a mood of legislative indifference." That editorial put the beginning of the decline in the 1980's, but the trend actually began earlier. It has increased its speed during this past two years of recession. Thus this transformation is not caused by the current financial circumstances. But the budget shortfall accelerates the transformation that has been underway for decades. Cuts in operating funds this year of $81 million, which equals 26% of the current state General Fund appropriation, have projected a harsh reality.

The flow of the stream of higher education support over half a century leads me to conclude that this is a structural shift in public policy, not a short-term budgetary shortfall and our state is not bucking the national trend. At the same time the state expects a top-class research university at College Park. The Regents set my first responsibility for 2003 to "Maintain the emphasis on building academic excellence and achieving national eminence." The age when great public universities were built by state appropriation alone is past, and this state, which ranks in the bottom ten of all states in its public support for public higher education, was never going to lift us to the top in any case.

The underlying message is that we have to figure out how to make it happen, how to fund it and then do it. This stream shows no sign of changing its course.

So shall we say, our hand has been dealt. How are we going to play it? One thing is certain-we will either go forward or
else we will go backward. I choose forward. You might be interested to know that the turtle is the only animal that cannot go backward.

There are only a couple of possible courses we can follow, and actually only one good one I can see. We could do nothing, assume the role of the victim and hope for two contemporaneous miracles. The first miracle would be an immediate and substantial economic turn-around in the state leading to new state revenues without new taxes. And the second miracle would be a new and high priority in the state and System for funding of higher education at College Park that would bring the new money here. Getting hit by a comet seems more likely to happen.

Alternatively, we can develop a strategy to move the university forward by making internal operational changes and by increasing and leveraging non-state assets while continuing to press the state to step up to supporting its best interests.

Because hoping for miracles is not a very good strategy, it seems that there is only one choice if we want to continue to build a great university. Let me return to this resource and operations question after digressing for a few minutes to talk about the great university we have been charged to create. Quality lies at the root of our problem. Building quality is more expensive for the university even if allowing mediocrity is more expensive for the state. Let's talk about why the state needs a great university and what it takes to build one.

In 1988 the state charged this campus to build a flagship university competitive with the nation's best public research universities. That expectation was strengthened by the Larson Task Force legislation in 1999. These state laws specify the expected national stature of the university as a guide to the campus leadership, the Regents and the state government itself. Why should the state create a great flagship university? What's in it for the state?

We live in a highly competitive society. The state must compete. The competitive issues are the economy, security, education, technology, health care, environment, quality of life, and workforce. And of course others can be added. For the State of Maryland to prosper, it must compete favorably against other states. Study after study has shown that research universities are keys to states competing in this knowledge and information age. The state needs a great research university so that it, and its people, now and in the future, can compete in the top tier. That is why we are the state's single most important asset in the determination of its future.

What distinguishes the great universities from the good ones? Two things: impact and leadership. Great universities are widely recognized for the impacts of their achievements and for their leadership. It is all about impact; it's not about activity. Good universities do a lot; great ones have high impact. Great universities act like a magnet that attracts and supports excellent people and facilitates their achievements - their impacts. Faculty and students alike are attracted to great universities because they gain value from their association with them. Sponsors and partners outside the university seek opportunities to link to people and facilities in great universities to address their knottier problems. It is the people and the facilities that have the power to attract.

Four elements are needed to build a great university: people, unfair advantages, quality and resources.

First, people are necessary. Great universities attract and retain excellent people and provide sufficient support so that they are willing to commit to building their careers there. We have top people here and we can attract them. This is not a problem for us. While commitment of excellent people is necessary, it is not sufficient.

Second, unfair advantages are necessary. To become great, a university must have access to, and use intrinsic advantages that others don't have and can't easily get. Unfair advantages provide leverage for attracting and retaining top people and enhancing the opportunities for them to have great impact. Unfair advantages have always been present in the rise of every great university. We have them in spades from our location in the Washington-Baltimore corridor and we are beginning to use them. Consider just a few of our recent partnerships and enterprises:

- Center for Advanced Study of Language in partnership with National Security Agency
- Unique umbrella agreement with National Institute of Standards and Technology facilitating greatly the collaboration and partnerships between the campus and NIST
- Partnership with National Oceanographic and Atmospheric Administration and its National Centers for Environmental Prediction to create the world's leading climate prediction center
- New research park - UM Enterprise Campus - M Square, which will be the largest research park in the state
- China-UM Research Park, China's first research park outside of its borders is located next to the campus to allow
There are many others.

**Third, quality is necessary.** Every great university holds to an exceptional standard of quality in essentially everything it undertakes; it is not a sometime thing, not a retrospective consideration, but it is a workaday way of life. A great university consistently expresses an unrelenting, unwavering passion for contributions of great impact. It's in the air. You can feel it when you walk around.

While the standard of quality refers to the work of everyone, the faculty primarily sets the standard, sets the expectation, sets the culture of excellence and enforces it through its collective judgments in various ways. Our standard is, and will be, what the faculty makes it. This is true at every great university.

**Fourth, resources are necessary.** Here's the rub. Our only strategic impediment to building a great university is access to resources. And essentially we have been told that we have to figure out how to solve the problem. Because a clear relationship exists between expenditures per student and quality of programs, committing to quality creates the problem for us.

Given the direction of flow of higher education in the State and given that it is not going to change, I believe we need to chart new directions for both funding and operating the university that will address the resource question. And we must begin now. Inaction will allow the vagaries of the economy and the political climate to dictate our future, and it would not be a pretty one. Inaction will likely squander the hard earned gains in academic quality that we have cherished in recent years. These new directions can only be determined after discussions with our many stakeholders, and that will take time. And they must be guided by preservation of our core values as a university.

On the funding side, we should consider broadening our revenue and asset bases to include greater reliance on self-generated funds and other non-state assets to supplement state general fund allocations and tuition. Private support will have to play a greater role in the operation of the campus as will access to assets that are obtained through partnerships with organizations around us. The development of resources by units and by faculty and staff to support their programs needs to be encouraged through incentives. We need to better align self-interest with university interest. We must be creative and open to heretofore-unthinkable ideas about resource generation at every level.

On the operation side, we need to consider an internal management model that allocates central funds based on values, mission and priorities. Our strategic framework should guide allocation decisions and a partnership for making these decisions needs to involve the academic side, the unit administrations and the central administration. We have been moving in this direction; so this is not a radical departure from current practices; allocations have not been uniform. This will mean moving toward a responsibility centered funding model. We need to focus allocation of central resources on priorities.

I met with the deans and vice presidents during the summer to discuss the needs for actions such as these and received their very strong, unanimous, even forceful, concurrence. We discussed topics such as new financial models, resource allocation, increased efficiencies, allocation of new resources and the timely need for action now. They have analyzed their unit operations and have already begun to examine issues such as directing up to 10% of their current budgets to permit funding of new initiatives even without new monies. In short, serious conversations have already been initiated. A [report from this dean's retreat](http://www.president.umd.edu/statements/2003/speech_state03.html) is posted for your perusal on my website with this presentation.

I have met with the Senate Executive Committee and received its willingness to explore these ideas together with the administration.

Let me describe some of the actions that I believe we-the administration and Senate and others-might begin to explore together.

- We need to work with the Chancellor and the Board of Regents to obtain support for the ultimate changes needed in operations, funding and increased autonomy that will permit us to succeed in building the university, like exploration of new financial models that are less dependent on state appropriation and new approaches to
financial management, responsibility and accountability.

- We need to work with key campus constituencies to explore ideas for operational and funding changes; create an even greater entrepreneurial spirit and action on campus; create new incentives for people and units to increase both state and non-state funding and to implement efficiency efforts.

- We need to create a strategic planning council consisting of faculty, students and staff to advise on various issues.

- We need to plan and carry out a major private fund raising campaign to focus in part on funding basic operating costs of the university, especially need-based scholarships and fellowships and to make private funds integral to the operation of the campus.

- We need to leverage the assets of others off campus through partnerships to provide opportunities in research and learning for our students and faculty. This may include expanding the number of partnerships with government labs and the private sector and expanding the number of joint and part-time appointments with people in institutions around the campus.

- We need to implement efficiency efforts that reduce duplication and maximize allocation of our resources to our highest priorities.

- We need to determine the appropriate expenditure per student using state guidelines that will allow delivery of highest quality programs and also plan on raising this amount.

- We need to maintain access for the state's most needy and middle-income students by expanding financial aid.

- We need to increase graduation rate and throughput of students to permit serving larger numbers of the state's citizens without increasing costs; and finally

- We need to continue to press the state to support its flagship campus.

My thought is to work with the executive committee shortly after this meeting to initiate explorations on some of these issues that can lead to a progress report for the Senate at the end of this semester or at the beginning of the next one.

In conclusion, we have covered a lot of territory today. We looked at the history of higher education nationally to get a long-term view of the course it is following. We each can guess the probability that this stream may change its course and if so in what way. I see no reason to believe that it will go backwards, and quite to the contrary I believe the historic public higher education funding model has already been abandoned, leaving a hybrid, public-private model as our only opportunity for continued achievement.

As we undertake these discussions we must protect our core values, our academic soul. This will require vigilance and clarity on each decision. But there is no alternative to changing our operations as the revenue picture continues its long-term changes. We live in a market-based environment so a market-based approach is inevitable.

Together, we can build a great university for the current and future generations of Maryland citizens who will reap the rewards. To succeed we must work together. This is our mandate from the state. It is also our opportunity. We are fortunate to have a course to follow that can continue to build this great place. But the time to begin is now.

Thank you for your polite attention to my thoughts on this transformational issue.