

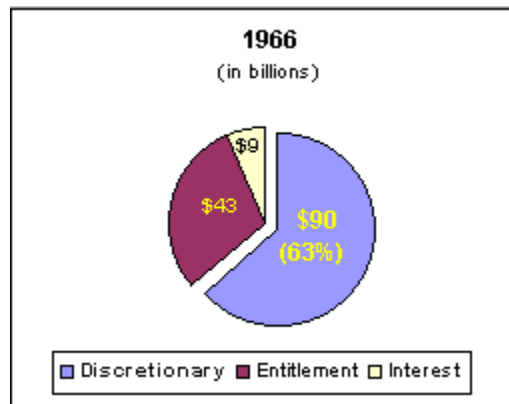
The Federal Budget Process

Each year, the Administration offers to Congress a budget recommendation about how dollars should be spent, but Congress has the final say. Agencies submit their projected budget needs to the President's Office of Management and Budget (OMB). OMB negotiates with agencies on their requests and decides the final package of recommendations that are then delivered to Capitol Hill. The President gives an overview of his budget request in his State of the Union address and subsequently delivers massive volumes of detail to Congress justifying recommended budget levels. After receiving the President's budget request, Congress holds hearings to question Administration officials about their requests, and then develops its own budget resolution. Once the budget resolution is passed, typically around April 15, the Appropriations Committees in the House and Senate begin their work on 13 appropriations bills. A budget is scheduled to be enacted by October 1, but it is often delayed.

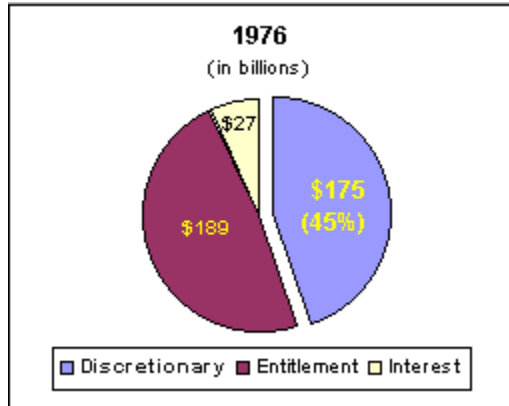
Like the state budget, the size of the annual federal budget has increased in dollar terms (reflecting inflation, increased population and economy) over the years, but the proportion available for common government services has shrunk dramatically. Competition among federal agencies for funding is heating up. Over the last four decades, discretionary spending has been cut significantly to accommodate rapid growth in other expenses. Discretionary spending, for example, covers everything from medical research, to police protection, to education and national defense.

The following charts reflect spending by category: discretionary, mandatory and interest.

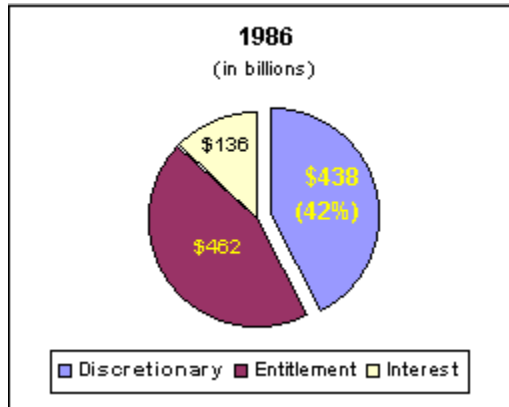
Four decades ago, nearly two-thirds of the federal budget was available for discretionary programs:



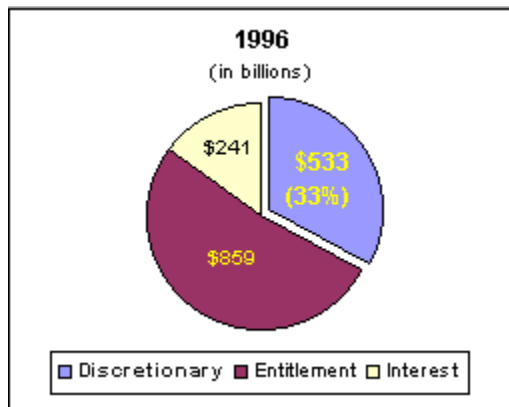
In the 1970's, entitlement spending jumped, placing a crimp on discretionary spending:



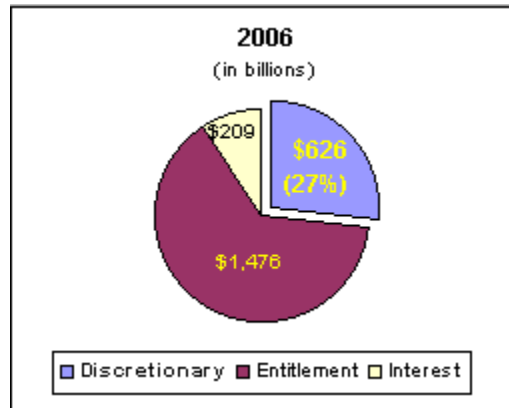
By the mid-1980's, interest payments on the national debt began to rise:



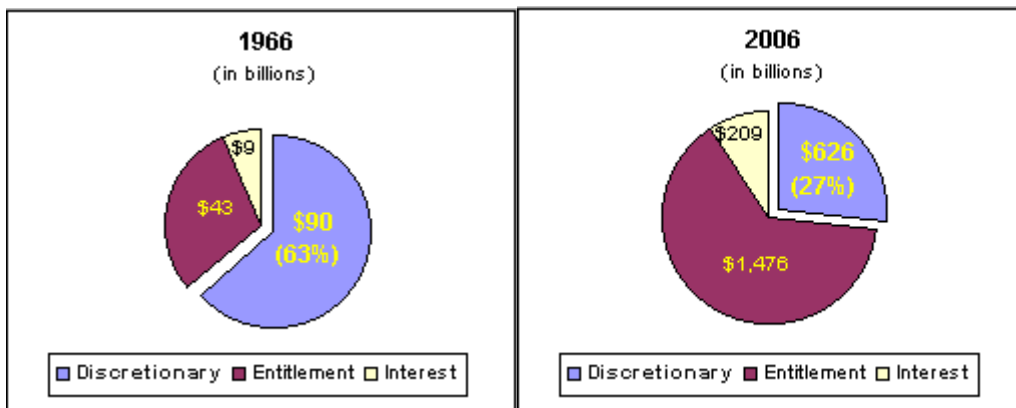
By 1996, entitlement spending took half of the budget pie. In just 30 years, the amount left over for medical research, police, education, and most other government services shrunk to a third of the budget:



Current budget projections show the same trend. By 2006, entitlement spending will demand the majority of the federal budget. Interest payments will continue to be a major drain on the Treasury, and the remaining amount will be divided among discretionary programs, approximately half to the Department of Defense, and the remainder to programs like education, veterans' benefits, basic and scientific research:



Compare the 40-year difference side-by-side:



The President's Proposed Fiscal Year 2007 Budget

The President's budget request is simply the starting point of the budget/appropriations process on the Hill. In my opinion, we need to celebrate the good components of the request, and then work diligently to improve on the areas of concern.

First, the areas of concern for UW students and institutions:

The budget proposes a \$3.5 billion cut for the U.S. Department of Education. The Department of Education is the number one source of funds for a majority of our comprehensive campuses and students and, of the 141 programs the President proposes for major reduction or elimination, 42 slated for elimination are in the U.S. Department of Education.

The spending plan would not provide any additional dollars to the federal grant and work-study programs. This follows \$12 billion in cuts in student loan programs passed just last month. A total of 103,000 students received some form of financial aid in 2004-05, and federal sources provided 79 percent of that aid.

- Under the President's proposal, the maximum Pell Grant would remain at \$4,050 for the fifth consecutive year. This amount does not cover the full amount of tuition and fees at any UW four-year institution. Students are taking out more and more loans to pay the remainder of the cost of education. In 2004-05, about 27,000 UW System students received a Federal Pell Grant, with an average award of \$2,425.
- The President's proposal would also eliminate the low-interest Perkins Loan Program, and would require colleges to return the federal share of the money they use to make new Perkins Loans to students. The President proposes level funding of the Supplemental Education Opportunity Grant (SEOG) and Federal Work Study (FWS) programs. Last year, more than 15,000 UW students received an average SEOG grant of \$666; almost 10,000 UW students received an average Federal Work-Study award of \$1,483; and more than 17,500 UW students received a Perkins award of \$2,166.
- A third area of concern to UW students and institutions is the President's proposal to end Upward Bound and Talent Search, which are part of the federal TRIO programs for disadvantaged students, and Gear Up, which concentrates on helping financially needy middle-school students prepare for college. Federal TRIO programs have proven very effective in Wisconsin. In FY05, UW institutions brought in more than \$11 million in TRIO program funding, more than \$5 million for Upward Bound, Upward Bound Math & Science, and Talent Search alone.

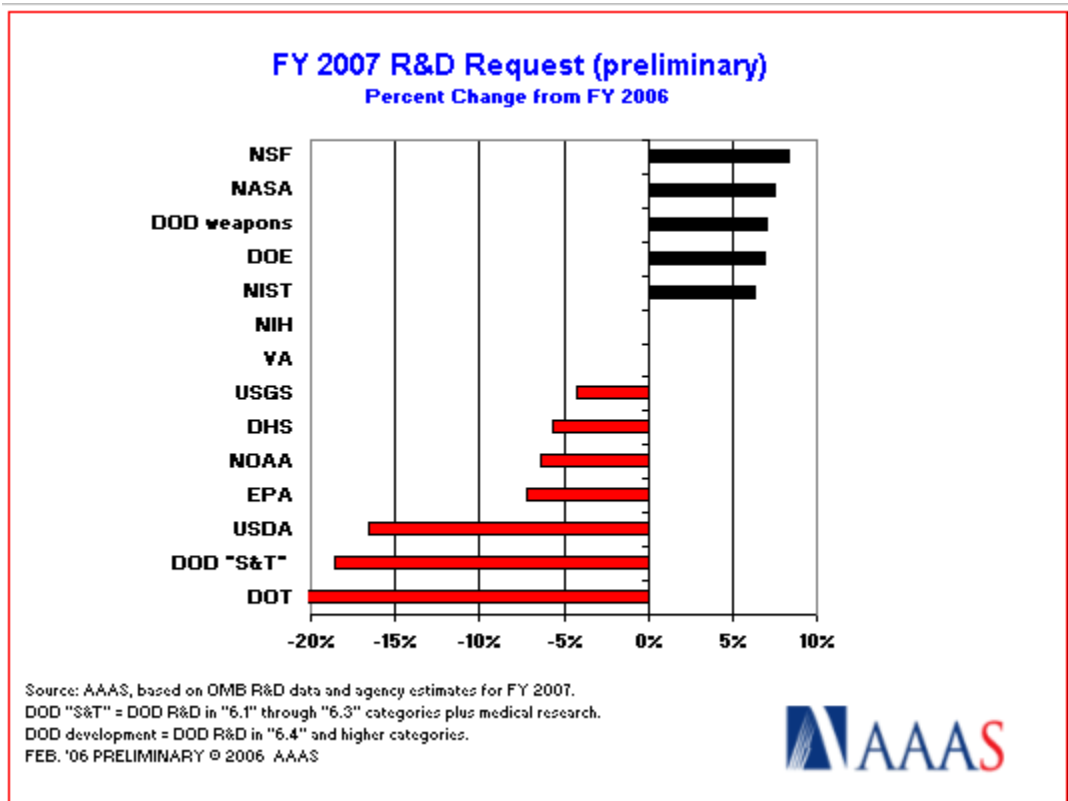
The President's budget does have some good news.

With respect to student financial aid and higher education programs, the budget calls for the creation of the Academic Competitiveness Grant and National Science and Mathematics Access to Retain Talent, or SMART, program. Both programs would give additional grants to Pell-grant eligible students completing a rigorous high school program and pursuing degrees in Science, Technology, Engineering and Mathematics (STEM) or critical foreign languages.

Also, at a recently-held university presidents and chancellors "summit" at the State Department, attended by UW-River Falls Chancellor Don Betz, the Administration unveiled its National Security Language Initiative, a program designed to increase the number of speakers of critical foreign languages. The budget calls for an increase of \$35 million for the Education Department, with \$24 million for the new Advancing America Through Foreign Language Partnerships program. UW System has a collaborative language program in which 12 campuses participate, and UW-Madison offers up to 60 different languages.

The President's proposed FY07 budget includes funding for an *American Competitiveness Initiative* that will double, over 10 years, investment in innovation-enabling research at three federal agencies: the National Science Foundation (NSF), the Office of Science at the Department of Energy (DOE), and the core programs at the National Institute of Standards and Technology (NIST). At the Department of Education, funding would allow for the training of teachers to lead advanced placement math and science classes in high school, and to prepare math and science professionals to teach.

The following chart provides a breakdown of the President's request for research and development funding in FY07:



Challenges and Obstacles to UW Institutions Competing for Federal Funding

More than 100 years ago, the State of Wisconsin and the Federal government made an investment in the University of Wisconsin-Madison research enterprise that has made our flagship campus the envy of the United States, if not the world. The University of Wisconsin System's 2003-04 GPR research budget was \$72 million, of which about 77 percent supports UW-Madison research activities such as faculty salaries, match money for federal grants, support personnel, and infrastructure. In 2003-04, the return on this investment was approximately \$575 million in federal awards.

Given the success of the historical UW-Madison experience, it would seem likely that some equivalent source of GPR funding for research at UW-Milwaukee, the

comprehensive colleges or the UW System at large could quickly yield returns on the investment. Such funding would not detract from what UW-Madison currently receives, but would better position our other institutions to compete for federal research dollars at a time of changing priorities.

Consider the following. Since merger, our UW institutions are all engaged in some form of federal research. In 2003-04, our institutions, other than Madison, brought in approximately \$97 million in federal awards, which is generating discoveries with industrial applications (there have been 170 invention disclosures to UW System from 12 campuses). One discovery has already resulted in a license to a pharmaceutical company with potential to return million of dollars to the campus for further research and development.

However, while there has been increased research going on at all UW institutions, there has not been a major investment in infrastructure, such as facilities that promote research/service interaction; nor have faculty, who have significant teaching loads, been provided with release time, cost-sharing funds, stipends for undergraduate/graduate assistants, or base research support, especially for summer research.

As UW-Madison has proven, an investment in the research enterprise across UW System will result in increased collaborations that will enhance research, further the transfer of university technology to other regions of the state, and provide expanded experiential learning and career opportunities for students. As noted in recent reports by the Wisconsin Technology Council, those states with multiple academic research centers tend to create more critical mass – and therefore, attract more federal dollars without diluting the efforts of any one player. Stronger research hubs in the UW System would also attract faculty, students and research funding to create greater economic opportunities for Wisconsin.

Recommendations

1. We must work to protect student financial aid and Department of Education programs in the FY07 Federal budget process;
2. We must support the *American Competitiveness Initiative* and initiatives that will bolster U.S. competitiveness in science and technology; and
3. We must seek state GPR funding in support of research and public service activity at all UW System institutions. It provides the core support and basic infrastructure that is required to build federally funded research, including support for faculty members to engage in research and remain current in their fields, improvement for facilities and infrastructure, and improvement in equipment and technology.

Attachment: Analysis of UW System Federal Funds
Full Analysis of President's FY07 Proposed Budget
American Competitiveness Initiative
2005 Year in Review