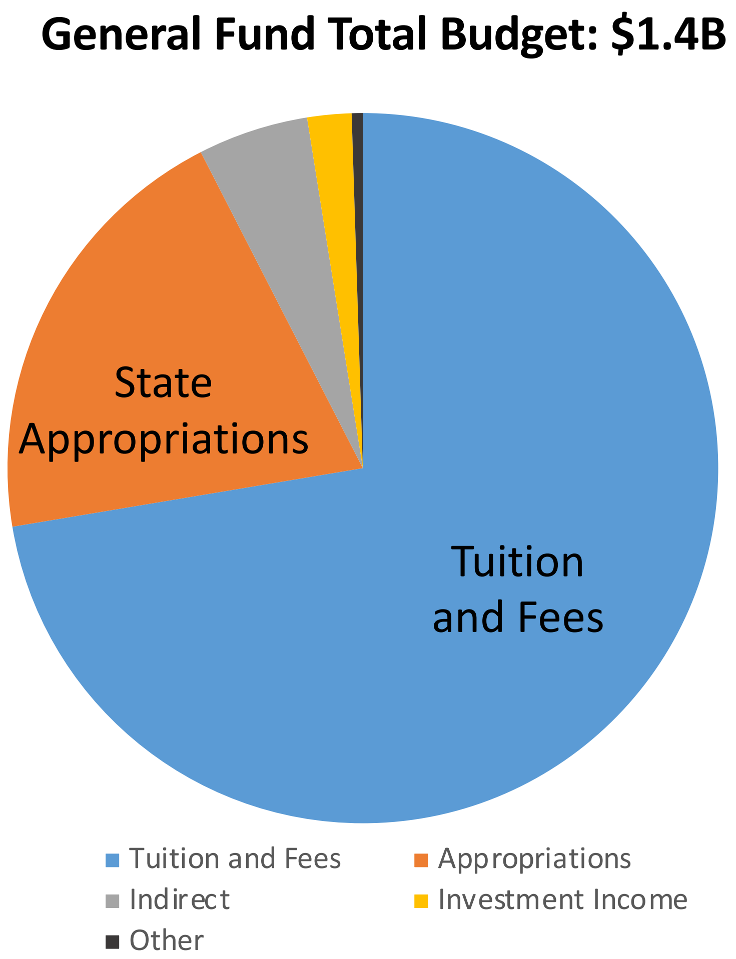
Michigan State University
Fiscal Planning for FY 2020-2021

President Samuel L. Stanley, Jr., M.D.
June 25, 2020

Since 2010, Revenue Overview

- General fund sources remain consistent over 10 years
- Budget adjustments over time driven largely by:
  - Enrollment
  - Academic programming
  - Tuition and fee rates
  - State appropriations
  - Indirect cost recoveries
- Investment income for general fund stable over ten years, $29M
- State appropriations, up $10M since 2010
- Preexisting and new challenges

Note: Auxiliary units budgeted independently of the General Fund – includes Athletics, RHS, others. These follow separate approval timelines with the Board of Trustees



FY 2020

- **Unprecedented Circumstances**
  - MSU first in Michigan to suspend classes; focus on student, faculty and staff health
  - Remote teaching and learning, remote research, remote work
  - Cancelled much of summer activity (e.g. study abroad, camps, conferences)
  - Significant online course development
  - Intense focus on summer enrollment

- **FY 20 Impact Financial Impact: $50M - $60M**
  - Timely action to avoid greater cuts later
    - Hiring chill
    - Executive and Dean compensation cuts effective May 1, 2% - 7%, 10% at top
    - Furlough option negotiated with support staff unions, 600-800
    - Capital projects review
  - Use of reserves to close the gap and assure program/service continuity
  - Substantial immediate auxiliary unit impacts

Toward FY 2021

- **COVID-19 Realities and Remaining Uncertainties**
  - Regional, statewide and national picture of the pandemic
  - Vaccine and therapeutic prospects and when available
    - Will we complete our planned semester in Fall?
    - Will we be able to return in Spring?
  - What will the economy look like over the next year(s)?
  - What Federal action will be taken?
    - 2020-21 tuition and fee rates frozen at 2019-20 levels; increase to financial aid planned
    - State appropriations – possible 15% reduction
  - What happens in the upcoming elections?
  - Intense focus on enrollment – level and mix (knowns and unknowns)

Our Approach

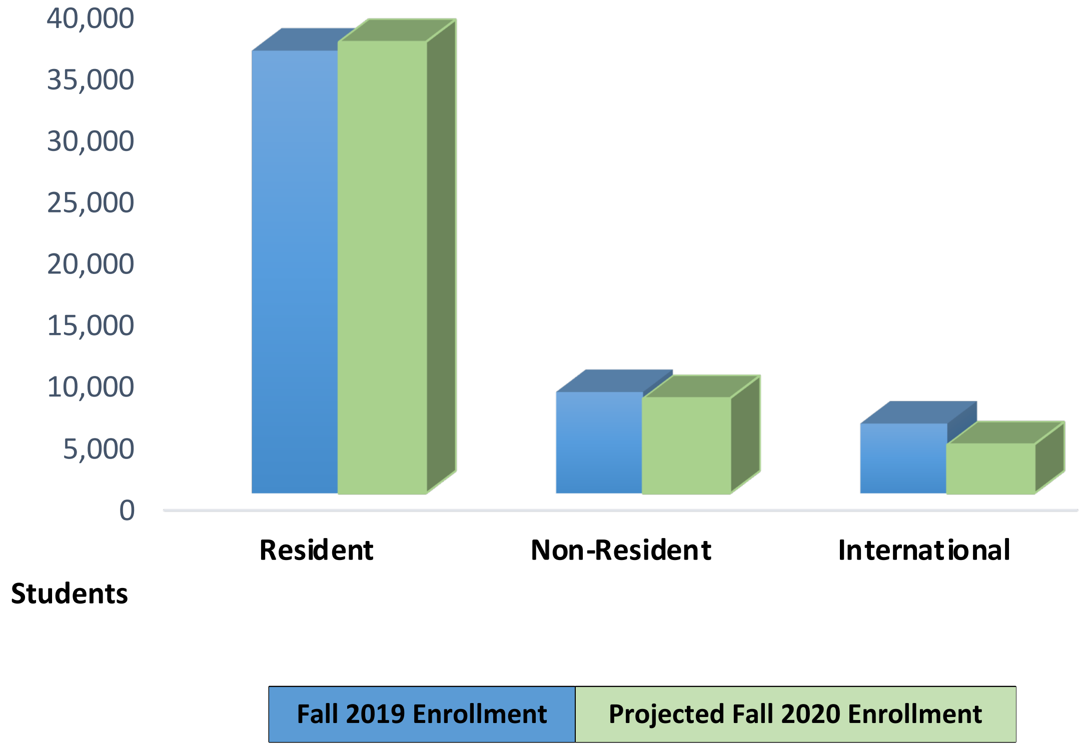
- **Preserve academic program quality; maintain instructional and research efforts; minimize disruption to campus students, faculty and staff where possible**
- **Include university-wide and unit reductions to align with revenue disruptions**
- **Planned use of $90M in deferred project savings and reserves to mitigate near-term disruptions and spare core academic and research mission**
- **Proposed FY21 budget represents best known assumptions after considering multiple cases**
- **Identified contingencies for responding to budget assumption variances**
- **Recognize continuing uncertainties – we will return with updates**

Revenue Assumptions

	FY20	FY21 Proposal	Change	Notes
Appropriations	$292M	$246M	-$46M	Reflects a 15% ($46M) reduction to operating appropriations, corrects FY20 appropriation
Tuition and Fees	$1,082M	$1,019M	-$63M	Includes additional resident undergraduates ($9M), fewer domestic non-resident students ($14M), significant international enrollment displacement ($53M), and adjustment to summer budget based on current year ($4M)
Investment Income Allocation	$30M	$12M	-$18M	Loss of annual GF component due to reserves spend-down/balancing for debt service needs
Indirect Cost Recovery & Other	$76M	$78M	$2M	Includes funding from several institutional sources
One Time Resources	Na	$90M	$90M	Includes funding from several institutional sources
Indirect Cost Recovery and Pass-Through Additions	Na	$2M	$2M	Increments for online/distance education programming and indirect cost recoveries
Total Revenues	**$1,479M**	**$1,446M**	**-$33M**	

Student Enrollment Overview

As of June 18, 2020



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Expense Assumptions

	FY20	FY21 Proposal	Change	Notes
Financial Aid	$185M	$192M	$7M	Includes a 4% ($6.7M) increase to financial aid budgets
Salary and Benefits	$909M	$943M	$34M	Includes market funding ($3M), UNTF contractual raise increment ($0.5M), FY20 annualization amounts ($3.5M), support staff contractual increases ($6M), increments for health ($3) and other fringe benefits ($6M); incorporates PY framework and pass-through additions into FY21 base ($12M)
Graduate Assts./Students	$65M	$68M	$3M	Reflects funding for stipend increases, change to healthcare, hourly rate increase for student employees
Utilities	$52M	$48M	-$4M	Reflects a 9% operating reduction (-$4.8M) and $0.8M in funding for new space requirements
Supplies & Services/Operations	$256M	$255M	-$1M	1% ($2M) across-the-board SS&E adjustment; $1M in library collections funding; 2% ($3M) operations increase, change to budgeted auxiliary abatement (-$7M)
Unit Reductions	0%	-3%	-$20M	Reflects $20M in unit reductions
Expenditure offsets	Na	-$45M	-$45M	Above-the-match retirement ($30M), 2.3% salary reduction ($15M)
Framework/Pass-Through Additions	$10M/$2M	$4M/$2M	Na	Framework includes $3M recurring for technology, $1M for Academic Competitiveness; Pass-through allocations Increment for online/distance education and indirect cost recoveries
Total Expenditures	**$1,479M**	**$1,446M**	**-$33M**	

FY21 Contingencies

If Additional Reductions are Necessary	If Additional Revenues are Realized
• Additional one-time resources (e.g. utility reserve, essential edge, long-term infrastructure reserve)	• Decrease/eliminate one-time resource draws
• Additional reductions (e.g. across-the-board, by unit/program)	• Restore unit reductions
• Additional salary & benefits reductions/layoffs	
• Short-term external financing	
• Capital asset monetization (e.g. parking, other)	

Selected Peer Actions

- **Hiring freezes:** All
- **Capital project deferrals:** All
- **FY21 unit reduction plans, many combined with other institutional actions:**
  - IU (5%), OSU (as high as 20%) savings of $58M in July and August , Penn State (3%) with 2000 furloughs at ½ pay
- **Retirement program modification:**
  - Northwestern (both 5% automatic and 5% match), Johns Hopkins (stopped both 6% contribution and 6% extra match), Duke all to faculty/staff plan stopped
- **Executive pay adjustments:** Everyone—all around 10-15% at the top

Auxiliary Impacts

Residential and Hospitality Services

- RHS planning projects budgets for 2020-21 of $239M, a decline from the current year of $25M and includes a planned $7M reserves contribution
- Over the 2019-20 and 2020-21 fiscal years COVID – 19 related losses are projected at $39.1M offset by expenditure reductions of $26M
- RHS reserves totaled $73M in June of 2019 and are anticipated at $66M as of June 30
- Existing debt obligations for RHS approximate $324M with annual debt service requirements totaling $23M
- Approximately 810 employees are impacted by furloughs and reductions to temporary/on-call employees

Auxiliary Impacts

Intercollegiate Athletics

- 2020-21 proposed budget is based upon projected revenues of $113.7M, $26.1M less than the current year. 2020-21 budget commits $15M from reserves to fund estimated expenditures of $128.7M
- Current year budgeted expenditures of $139.8M are reduced by $11.1M in order to balance to the proposed 2020-21 budget of $128.7M
- Reserve balance for June of 2019 approximated $40.9M*. Projected balances for 2020 and 2021 anticipated at $29.2M* and $14.2M* respectively
- Existing debt obligations for the Athletics approximate $69M with FY21 debt service requirements totaling $14M
- This budget is based upon a fall football season with safety measures including diminished attendance related to social distancing in the stands
- Alternative scenarios have been examined ranging up to the loss of the football season and approximately 66% of current year revenues

*Reserves balances include Funds Functioning as Endowment that require additional BOT approval to commit

Auxiliary Impacts

AgBioResearch and MSU Extension

- AgBioResearch and MSU Extension anticipates 2020-21 budgets of $41.5M and $48.6M respectively
  - Both units incorporate an estimated 15% reduction to State of Michigan appropriations
  - Planning includes increases to Federal appropriations, adjustments to restricted funds
  - Extensive cost-saving efforts ongoing within units that include:
    - Limiting travel
    - Eliminating leased vehicles
    - Reduction to unit operating expenses
    - Reduce programmatic allocations

Significant Auxiliary Summary

	FY21 Budget	Planned Reserves Draw
Residential and Hospitality Services	**$232M**	**$7M**
Department of Athletics	**$128M**	**Up to $15M**
MSU Healthcare, Inc.	**$100M**	**Up to $5M**
MSU AgBioResearch	**$41.5M**	**$0**
MSU Extension	**$48.6M**	**$0**

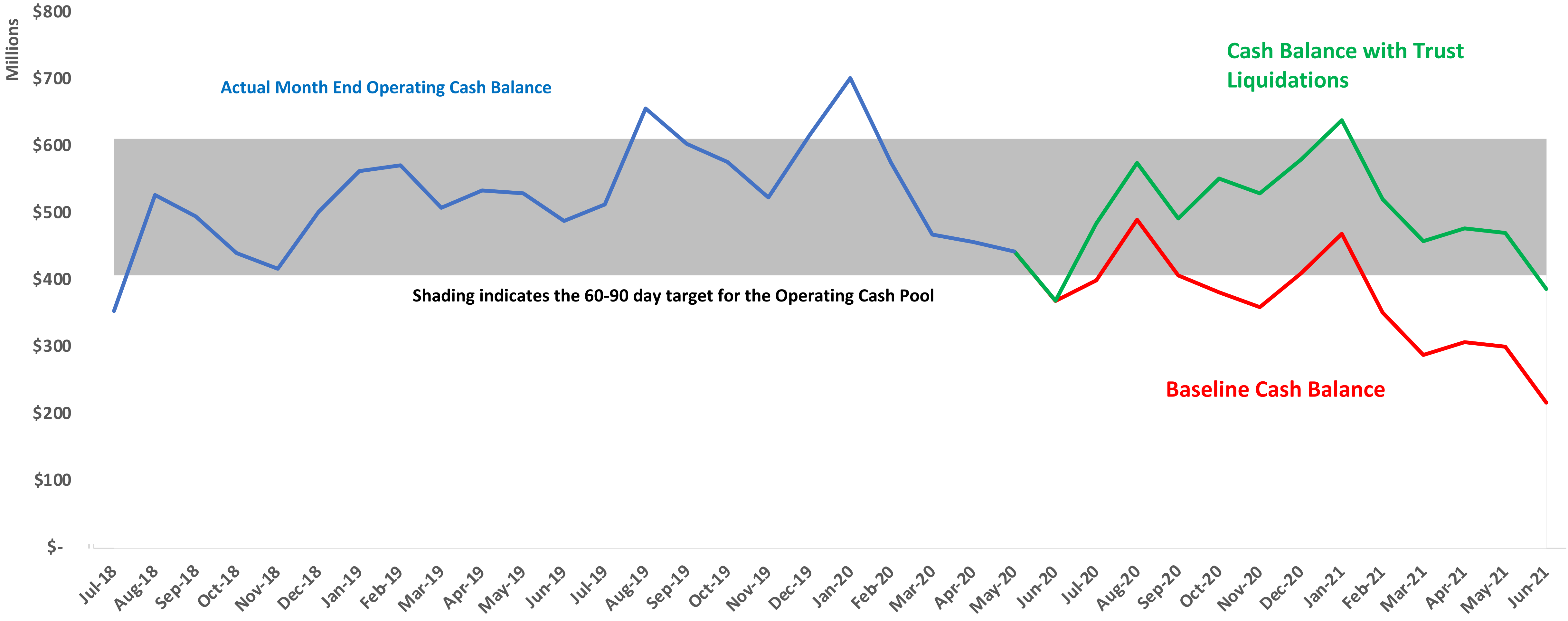
Other units available on request

Budget Impact of Liquidating Long-Term Investments

	Balance – 4/1/20	Planned Liquidations	Adjusted Balance
Cash Pool Balance (Invested long-term)	**$1,384**	**$170** (-12.3%)	**$1,214**
Investment Income (6.25% long-term earnings assumption)	**$86.5**	**Na**	**$76**
Investment Income Change			**-$10.6M** (-12.3%)

- Treasury anticipates liquidating two investment trusts to provide additional liquidity
- Provides for $170M in additional expenditures for one time resource use
- Monitoring cash-flow outcomes as conditions evolve to inform January and April trust reinvestment actions
- Liquidated values could be reinvested if conditions improve

Cash Balance Falls Below Targets Unless Trusts Liquidated



In Summary…

- MSU is preparing to welcome students and faculty to campus
- FY21 budget proposal based on best available information
- Monitoring enrollment, appropriations and disease progression
- Will return to update as we learn more
  - September – Enrollment
  - October – State Appropriations

FY21 Planning Principles

- Planning efforts across the institution occur in a fluid environment, including ongoing monitoring of the virus, numerous operational variables; General Fund and total University finances; plus, the need to maintain reputation as high quality, land-grant university, attractive to undergraduate and graduate students

- Necessary General Fund reductions of approximately $170 million require recurring as well as non-recurring mitigation strategies to allow for unit phasing of reductions; balance use of reserves with reduced cash-pool balances and associated investment income

- Prioritize activities aligned with core values and institutional mission, review others for ongoing scale
  - Preserve student ability to matriculate and graduate

- Validate sustainability of unit reductions (cost-shift, service billing rate adjustments not applicable)

- Review administrative process and service approaches, implement adjustments as best-practices indicate (e.g. service automation, service centers)

- Faculty and staff across-the-board concessions can mitigate unit reduction amounts

- Human resources and CLO agreements guide personnel responses

- Consider certain spin-off opportunities, pursue where monetization value high, operational risk low