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

<table>
<thead>
<tr>
<th></th>
<th>FY20</th>
<th>FY21 Proposal</th>
<th>Change</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Appropriations</td>
<td>$292M</td>
<td>$246M</td>
<td>-$46M</td>
<td>Reflects a 15% ($46M) reduction to operating appropriations, corrects FY20 appropriation</td>
</tr>
<tr>
<td>Tuition and Fees</td>
<td>$1,082M</td>
<td>$1,019M</td>
<td>-$63M</td>
<td>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)</td>
</tr>
<tr>
<td>Investment Income Allocation</td>
<td>$30M</td>
<td>$12M</td>
<td>-$18M</td>
<td>Loss of annual GF component due to reserves spend-down/balancing for debt service needs</td>
</tr>
<tr>
<td>Indirect Cost Recovery &amp; Other</td>
<td>$76M</td>
<td>$78M</td>
<td>$2M</td>
<td>Includes funding from several institutional sources</td>
</tr>
<tr>
<td>One Time Resources</td>
<td>Na</td>
<td>$90M</td>
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<tr>
<td>Indirect Cost Recovery and Pass-Through Additions</td>
<td>Na</td>
<td>$2M</td>
<td>$2M</td>
<td>Increments for online/distance education programming and indirect cost recoveries</td>
</tr>
<tr>
<td><strong>Total Revenues</strong></td>
<td>$1,479M</td>
<td>$1,446M</td>
<td>-$33M</td>
<td></td>
</tr>
</tbody>
</table>
FY21 Budget Planning – Michigan State University

Student Enrollment Overview

As of June 18, 2020

Fall 2019 Enrollment | Projected Fall 2020 Enrollment

Resident | 40,000 | 35,000
Non-Resident | 30,000 | 25,000
International | 20,000 | 15,000

Planned Revenue Impact

<table>
<thead>
<tr>
<th>Category</th>
<th>Revenue Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>Resident</td>
<td>$9</td>
</tr>
<tr>
<td>Non-Resident</td>
<td>$8</td>
</tr>
<tr>
<td>International</td>
<td>($14)</td>
</tr>
</tbody>
</table>

June 25, 2020
## Revenue Assumptions

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Total Revenues  $1,479M  $1,446M  -$33M
# Expense Assumptions

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<th>FY20</th>
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<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Financial Aid</strong></td>
<td>$185M</td>
<td>$192M</td>
<td>$7M</td>
<td>Includes a 4% ($6.7M) increase to financial aid budgets</td>
</tr>
<tr>
<td><strong>Salary and Benefits</strong></td>
<td>$909M</td>
<td>$943M</td>
<td>$34M</td>
<td>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)</td>
</tr>
<tr>
<td><strong>Graduate Assts./Students</strong></td>
<td>$65M</td>
<td>$68M</td>
<td>$3M</td>
<td>Reflects funding for stipend increases, change to healthcare, hourly rate increase for student employees</td>
</tr>
<tr>
<td><strong>Utilities</strong></td>
<td>$52M</td>
<td>$48M</td>
<td>-$4M</td>
<td>Reflects a 9% operating reduction (-$4.8M) and $0.8M in funding for new space requirements</td>
</tr>
<tr>
<td><strong>Supplies &amp; Services/Operations</strong></td>
<td>$256M</td>
<td>$255M</td>
<td>-$1M</td>
<td>1% ($2M) across-the-board SS&amp;E adjustment; $1M in library collections funding; 2% ($3M) operations increase, change to budgeted auxiliary abatement (-$7M)</td>
</tr>
<tr>
<td><strong>Unit Reductions</strong></td>
<td>0%</td>
<td>-3%</td>
<td>-$20M</td>
<td>Reflects $20M in unit reductions</td>
</tr>
<tr>
<td><strong>Expenditure offsets</strong></td>
<td>Na</td>
<td>-$45M</td>
<td>-$45M</td>
<td>Above-the-match retirement ($30M), 2.3% salary reduction ($15M)</td>
</tr>
<tr>
<td><strong>Framework/Pass-Through Additions</strong></td>
<td>$10M/$2M</td>
<td>$4M/$2M</td>
<td>Na</td>
<td>Framework includes $3M recurring for technology, $1M for Academic Competitiveness; Pass-through allocations Increment for online/distance education and indirect cost recoveries</td>
</tr>
</tbody>
</table>

**Total Expenditures** | $1,479M | $1,446M | -$33M
## FY21 Contingencies

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

<table>
<thead>
<tr>
<th>Unit</th>
<th>FY21 Budget</th>
<th>Planned Reserves Draw</th>
</tr>
</thead>
<tbody>
<tr>
<td>Residential and Hospitality Services</td>
<td>$232M</td>
<td>$7M</td>
</tr>
<tr>
<td>Department of Athletics</td>
<td>$128M</td>
<td>Up to $15M</td>
</tr>
<tr>
<td>MSU Healthcare, Inc.</td>
<td>$100M</td>
<td>Up to $5M</td>
</tr>
<tr>
<td>MSU AgBioResearch</td>
<td>$41.5M</td>
<td>$0</td>
</tr>
<tr>
<td>MSU Extension</td>
<td>$48.6M</td>
<td>$0</td>
</tr>
</tbody>
</table>

Other units available on request

June 25, 2020
## Budget Impact of Liquidating Long-Term Investments

<table>
<thead>
<tr>
<th></th>
<th>Balance – 4/1/20</th>
<th>Planned Liquidations</th>
<th>Adjusted Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash Pool Balance (Invested long-term)</td>
<td>$1,384</td>
<td>$170</td>
<td>$1,214 (-12.3%)</td>
</tr>
<tr>
<td>Investment Income (6.25% long-term earnings assumption)</td>
<td>$86.5</td>
<td>Na</td>
<td>$76 (-12.3%)</td>
</tr>
</tbody>
</table>

**Investment Income Change**

- 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

June 25, 2020
Cash Balance Falls Below Targets Unless Trusts Liquidated

Shading indicates the 60-90 day target for the Operating Cash Pool

Baseline Cash Balance

Cash Balance with Trust Liquidations

June 25, 2020
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