October 26, 2018

MEMORANDUM

To: Committee on Budget and Finance

From: June Pierce Youatt, Provost and Executive Vice President for Academic Affairs  
Satish Udpa, Executive Vice President for Administrative Services  
Kathleen Wilbur, Executive Vice President for Government and External Relations

Subject: 2019-20 Appropriation Request and Capital Outlay

RECOMMENDATION
The Trustee Budget and Finance Committee recommends that the Board of Trustees adopt Michigan State University's 2019-20 Operating and Capital Outlay Request, including components for the University General Fund, AgBioResearch, and the Michigan State University Extension.

RESOLUTION
BE IT RESOLVED, that the Board of Trustees of Michigan State University hereby adopts the attached 2019-20 Appropriation Request and Capital Outlay.

BACKGROUND
The Appropriation Request provides parameters that will guide development of MSU requests through the 2019-20 appropriation cycle. Action on the request authorizes the Administration to respond to the State of Michigan Department of Technology Management and Budget reporting requirements.

Attachments

cc: Board of Trustees, J. Engler, N. Barr, M. Zeig, R. Young, D. Byelich  
B. Johnston, B. Kranz
2019-20 MSU Appropriation and Capital Outlay Request Overview:

In order to assist our students in planning their educational careers, and to provide lead-time to implement critical institutional changes, MSU adopted its first-ever two-year budget. This two-year budget includes a tuition freeze for incoming resident freshman this year and for all resident undergraduates for the 2019-20 academic year. Additionally, MSU has adopted a block-tuition structure for the 2019-20 academic year, a structure that will incentivize students to complete their degrees in four years and, thereby, keeping expenses as low as possible.

State institutions who freeze undergraduate tuition and fee rates should be awarded an additional increment within the performance funding model presently used for determining annual appropriations. The current performance funding model eliminates incremental funding for institutions who fail to comply with the state’s tuition restraint provision. In most cases, the penalty for non-compliant institutions ranges from one to two percent of annual appropriations. An incentive of similar magnitude for institutions who freeze tuition creates a parallel and balanced approach for encouraging lower tuition and fee rates at the state’s universities.

Michigan State University’s continuing status as a top 100 global university while, at the same time, providing exceptional value for the students of Michigan is evidenced by the arrival of the largest entering class in MSU history this fall. MSU proudly welcomed not only the largest entering class in history, but also its most diverse. In fact, the current entering class features significant increases in African American enrollment, total students of color, and includes more women than at any time in MSU’s history. Additionally, 77 percent of the over 8,400 entering students are from Michigan. As Interim President Engler said at the time students arrived on campus “The quality and value of the university continues to be validated by families who choose to invest in their students’ future at MSU”.

The partnership between state government and public higher education is a vital one for incubating economic and societal development throughout the state. In fact, the University Research Corridor (URC), an alliance of the state’s three research universities (Michigan State University, Wayne State University, and University of Michigan), adds approximately $18.7 billion to the state economy, an increase that exceeds 50 percent in just over ten years. Further, the URC is credited with nearly 79,000 jobs and approximately 670,000 alumni living in Michigan, or, one in every ten Michiganders over the age of 24. The URC’s contributions to the state are magnified when one considers that the State of
Michigan ranks 40th nationally for ten-year change to appropriations for higher education, lagging the national median by 16 percentage points. If Michigan approximated the national median, Michigan public higher education would receive over $340 million more in annual appropriations support.

Finally, government investment in higher education provides greater economic returns than most other sectors of government spending. For example, according to a 2009 study by Phillip A. Trostel, each college graduate generates nearly half a million dollars in increased tax revenue over their non-college peers, rendering a conservatively estimated internal rate of return on governmental investment in higher education of 10.3 percent.
MSU PERSPECTIVE

Michigan State University is recognized around the world as a leading academic institution with world-class faculty, top graduate school programs, a powerful research portfolio, and an engaged, entrepreneurial spirit. MSU is ranked among the top 100 global universities by *Times Higher Education* and *U.S. News and World Report*, and among the top 50 in the United States by *Washington Monthly*. MSU is among 53 “international powerhouses” named by *Times Higher Education* as institutions with exceptional research output and the best chance of overtaking the world’s best universities. A member of the Association of American Universities, a group of 62 elite research institutions in the U.S. and Canada, MSU nonetheless honors its heritage as the nation’s pioneer land grant university by maintaining especially close connections to the people of Michigan. Enrolling more Michigan students than any other state university (even while maintaining leadership in international enrollment and study abroad), MSU’s value proposition is to ensure the opportunity for high-quality education for qualified students, enhancing Michigan’s future through knowledge discovery and talent development. MSU excels at its mission despite an active and prolonged disinvestment from the State of Michigan. MSU’s appropriation per student mirrors that of 1992 without adjusting for inflation and predates 1970 levels when accounting for inflation. Additionally, when compared to its Carnegie peer group, MSU receives approximately $2,700 less in appropriations per student, equivalent to approximately $127M in total appropriations. Finally, MSU lags the Big Ten average for proportion of resident undergraduate students by approximately 10 percent, forgoing over $90M annually in non-resident tuition when compared to the average.

A Top Value

Ranked among the top 50 best college values by *Money* magazine, MSU is a vital engine of prosperity for Michigan families across generations. It is also a recognized innovator in promoting student success, committed to improving its already respectable six-year graduation rate to 85 percent through curricular and instructional reforms and a growing network for student support in the residential setting.

MSU’s programmatic investments seek to improve technology and teaching, prioritize interdisciplinary study, the narrowing of graduation gaps amongst various student groups, and fostering a healthier campus.

*A Wall Street Journal/Times Higher Education* 2017 ranking, moreover, put MSU at the top of America’s public research universities in its measure of student engagement. That is a quality including academic rigor and student connectedness to the school, each other and the outside world. Engagement is a positive factor in student success and such ranking, the report noted, is more typical of smaller, denomination-affiliated colleges.

Approximately two-thirds of recent MSU graduates reported participating in an internship, co-op, field placement, student teaching, or clinical placement during their degree program. In addition, over 18,000 students work on campus.
A spirit of entrepreneurialism permeates the university at all levels, through numerous direct opportunities for students or the extensive efforts and impact the university’s outreach efforts make across the state. Examples of student opportunities include research experience in faculty laboratories, business plan competitions, the entrepreneurship minor available to all undergraduates, student business incubators, and numerous additional opportunities through education abroad resources.

The university’s entrepreneurial ethos fits hand-in-glove with our progressive pedagogy and approach to developing “citizen scholars” and what we and our partners at IBM call “T-shaped” scholars: students who are prepared for real-world careers demanding technical and disciplinary expertise along with connective soft skills.

According to The Wall Street Journal, MSU leads the nation’s public research universities in student engagement

As evidence of the success of MSU programs, the university welcomed its largest and most diverse entering class in its history this fall. 77 percent of the over 8,400 entering students are from Michigan, an increase of over 600 students when compared to last year. Additionally, the current entering class features significant increases in African American enrollment, total students of color, and includes more women than any entering class in MSU’s history. To reinforce the momentum of our programs and our students’ success, the university implemented its first-ever two-year budget. This two-year budget includes a tuition freeze for incoming resident freshman this year and for all resident undergraduates for the 2019-20 academic year. Additionally, MSU has adopted a block-tuition structure for the 2019-20 academic year, a structure that will incentivize students to complete their degrees in four years and, thereby, keeping expenses as low as possible.

A Close Community Partner

It is no surprise that more than 90 percent of MSU’s graduates were employed or continuing their education within nine months of graduation, and a similar percentage rated their educational experience as excellent and would choose MSU again if starting their experience over. Of 2017 graduates with employment, more than 64 percent remained in Michigan, with an additional 14 percent employed in other regional states.

Michigan State University has an annual economic impact of more than $5 billion and seeks to instill an entrepreneurial and high-performance mindset in its students, faculty, and staff.

MSU Extension’s presence extends to all 83 Michigan counties, availing all Michigan residents to the resources and expertise they need to advance the state and its economy. One example: the MSU Product Center’s efforts have resulted in 634 new businesses since 2004 with increased first-year sales of $402 million and approximately 2,000 jobs created.

MSU is deeply engaged in the cities of Flint, Detroit, and Grand Rapids, working collaboratively to provide expertise and a network of resources in education, food, water, health, and sustainability. In July 2017, Outside magazine cited the university’s medical school facilities among the knowledge economy assets qualifying Grand Rapids as its “Best River Town” for 2017.
MSU Programmatic and Strategic Commitment

MSU’s programmatic strategy is premised on the foundation of advancing the common global good with uncommon will and seeks to further education and research in Science, Technology, Engineering, and Math as well as other curricular priorities in order to expand economic impact locally, regionally, and internationally.

MSU routinely receives in excess of $600 million in sponsored awards annually, focused in areas such as food systems; plant sciences; health sciences; computational sciences emphasizing biology and food/food-chain; and population and the environment, including food, water, and energy.

Additionally, MSU’s programmatic investments seek to improve technology and teaching, prioritize interdisciplinary study, the narrowing of graduation gaps amongst various student groups, and fostering a healthier campus.

MSU is consistently ranked as one of the top institutions nationally for internationalization while also enrolling a larger percentage of resident students than Big Ten peers.

In fact, MSU’s approximately 77 percent resident undergraduate population exceeds the Big Ten average by 10 percent, making it among the most home-state centric in the conference.

MSU’s success is evidenced by its consistent inclusion among the top 100 universities in the world and with 30 programs featured in the top 25 nationally, including 9 ranked #1

MSU’s success is evidenced by its consistent inclusion among the top 100 universities in the world and in its acclaimed programs with thirty featured in the top 25 nationally, including nine rated number one. Additionally, MSU’s graduation rate exceeds the U.S. News & World Report predicted rate by 10 percentage points, an indicator of educational quality and high performance.

Limiting tuition and fee rate increases and constraining student debt lay at the heart of institutional planning efforts. Entering resident freshman tuition reflected no tuition increase this fall and all undergraduate rates are frozen for the 2019-20 academic year. Additionally, MSU is implementing a block tuition and fee structure for 2019-20, thereby incentivizing students to complete their degrees in four years and limit expenses.

MSU also routinely enrolls in excess of 8,800 Pell Grant recipients, representing more than 22 percent of the undergraduate population, while, at the same time, keeping both the average debt amount and the proportion of students graduating with debt below state and national averages. MSU administers in excess of $700 million in financial aid annually, with more than 65 percent of students receiving some form of aid. Budgetary increases to financial aid routinely outpace increases to tuition as MSU carefully monitors family income distribution, financial aid distribution, debt measures, and other financial aid metrics.
MSU Resources and Performance Funding Model

MSU has maintained its reputation as a renowned public research university despite the most difficult financial circumstances experienced in higher education history, with significant reductions in state support over a generation. In fact, Michigan ranks 40th nationally for rate of change to higher education appropriations for the ten-year period ending fiscal 2018.

Additionally, MSU operates with approximately $2,700 less per student in state appropriations support than its Carnegie peers, an amount that represents approximately $127 million in lost resources across the institution. When adjusted for inflation, MSU’s appropriation per student has declined by more than 45 percent since 2000-01.

Further, since the inception of the performance funding model in 2011, MSU’s appropriations have only increased by one tenth of one percent on an average annual basis, among the lowest for those institutions complying with tuition restraint provisions over the period. However, at the same time, MSU enrolls more resident students and total undergraduates than any state institution, conducts approximately half of the total research and development activity in the state, and produces the second most critical skills degrees annually next to the University of Michigan. In addition, it is important that the performance funding model be modified to better reflect the performance of all institutions. This would include addition of the IPEDS marker for community engagement, proportion of undergraduates graduating with debt, and the number of Pell students, or combinations of the above.

Michigan ranks 40th nationally for changes to higher education appropriations over ten years

Finally, additional consideration should be provided to those institutions who not only comply with the tuition restraint provision but who freeze resident undergraduate tuition and fee rates altogether. In as much as the penalty for violating the tuition restraint provision ranges from one to two percent in most cases, the reward for institutions freezing resident undergraduate tuition should be similar, ranging from one to two percent of annual appropriations. MSU continues to do more with less for public higher education, despite the disinvestment by state legislators. MSU expends approximately $2,000 less per student than its AAU peers, making MSU among the most efficient institutions in the group. Additionally, MSU is among the most efficient in the Big Ten as measured by the number of students per employee while simultaneously approximating the Big Ten average for student-to-faculty ratio.

MSU also ranks among peer leaders for grounds maintenance and custodial efficiency. The university has reduced greenhouse gas emissions by over 25 percent since 2010 and uses 10 percent less heating units (BTU) per person than it did in 2006.

MSU has successfully navigated the most challenging economic reality in higher education history. As a result of MSU’s efficient and high-performing focus, we have been able to maintain our leading-edge faculty and research enterprise while also improving innovation, entrepreneurship, and state economies. In order to assure ongoing and improving performance, MSU continually assesses itself against relevant industry metrics and benchmarks as well as understanding best practices from other industries to inform operations, processes, and systems.
MSU AgBioResearch & MSU Extension

As the nation’s pioneer land-grant university, MSU is especially committed to working with Michigan residents to meet the needs of agriculture and natural resources stakeholders through a variety of means, including a programmatic presence in communities across the state. With annual economic impact of more than $104 billion, Michigan’s food and agriculture sectors are a leading force for economic stability in Michigan. Agribusiness is among the fastest growing economic sectors in the state, and MSU AgBioResearch and MSU Extension contribute to Michigan’s economy with significant research, educational programs and a community presence to boost economic development and growth related to agriculture and natural resources, community vitality, entrepreneurship, and career preparation. Therefore, it is essential that full recurring support be provided to both MSU AgBioResearch and MSU Extension, including inflationary increases.

MSU AgBioResearch is focusing on key research areas in:
- Food, energy, and the environment
- Natural resources policy and management
- Enhanced profitability in agriculture and natural resources
- Secure and safe food systems
- Families and community vitality
- Making the most of Michigan’s natural assets
- Supporting food and agriculture

To maximize its impact and fiscal responsibility, MSU continues to build on its partnerships with local, state and federal government agencies and with the private sector while maintaining its core values and commitments. Leadership continues to balance increasing the value of MSU’s work and ensuring it matches the high quality expected of MSU. We engage our partners, our students, our faculty and the stakeholders and communities we serve, both locally and globally, to shape a shared future of sustainable prosperity.
Capital Outlay Request

Renovation and addition are needed to support the continued success of plant science research and learning

increased research capacity in this strategic area of the MSU research mission, support the shift of fundamental plant science from small scale model plant systems to agronomic crops, and address aging infrastructure.

The current greenhouse infrastructure limits the university’s ability to meet the needs of the Michigan agricultural community, the region, our global reach; conduct critical research, and provide student learning in modern facilities that reflect real world experiences.

Renovations and additions

Renovations and/or additions address extensive programmatic and maintenance improvements required by buildings previously funded by the state. They are necessary to reconfigure and or expand space in order to support the work of the programs housed in those facilities; create core/shared research support facilities and modern learning spaces; and in some instances, adaptive re-use or modernization of aging buildings including alignment with current codes and provisions for accessibility. Major renovations and/or additions include the plant sciences-bioeconomy, biological and biomedical sciences, music and learning facilities.

Major systems replacement

Current forecasts anticipate general fund capital renewal (deferred maintenance) and utility needs of approximately $401 million over the next five years. In view of the extensive facility needs it faces, MSU has drawn upon an increasing amount of internal university resources to address the most critical facility maintenance and programmatic requirements. Self-funding these capital improvements is not sustainable without negative impacts on other programs.

The university seeks funding for more targeted and specific building systems maintenance and utilities. Examples of systems in need of repair or replacement include roofing, windows, electrical, mechanical, chiller, refrigeration, steam, fire, security, and barrier-free access.