

**MICHIGAN STATE
UNIVERSITY**

June 26, 2020

MEMORANDUM

To: Committee on Budget and Finance

From: Samuel L. Stanley, Jr., M.D. *SL2ASO*
President

Subject: 2020-21 Budget Development Guidelines

RECOMMENDATION

The Trustee Finance Committee recommends that the Board of Trustees adopt the 2020-21 Budget Development Guidelines which include revenue and expenditure totals for the 2020-21 fiscal year.

RESOLUTION

BE IT RESOLVED, that the Board of Trustees adopts the attached 2020-21 Budget Development Guidelines (FY21 Budget Guidelines).

BE IT FURTHER RESOLVED, that the Administration is directed to develop and implement the 2020-21 General Fund, MSU AgBioResearch, Michigan State University Extension, and Intercollegiate Athletics budgets in accordance with the FY21 Budget Guidelines.

BACKGROUND:

Attachment A summarizes revenues and expenditures for the 2020-21 budget. Attachment B provides detailed general fund revenue and expenditure changes for the proposed 2020-21 budget.

In May of 2021 the Board of Trustees approved the tuition and fee rate structure for the 2020-21 academic year. Approved tuition and fee rates are the same as 2019-20 rates. Rates for the resident entering class are unchanged since the 2017-18 academic year, and broader undergraduate tuition and fee rates are unchanged for the second consecutive year.

The proposed 2020-21 Budgets for the General Fund, MSU AgBioResearch, Michigan State University Extension, and Intercollegiate Athletics totals \$1.664.9 million, a \$52.6 million decline from the previous fiscal year. Summary schedules for the 2020-21 General Fund budget follow.



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The 2020-21 budgets are designed to initiate University operations during a period of very dynamic circumstances and will be closely monitored as COVID-19 issues evolve and related economic implications change.

cc: Board of Trustees, T. Sullivan, N. Beauchamp, N. Barr, M. Zeig,
B. Quinn, M. Haas, D. Byelich, B. Johnston, L. Gremel, C. Leese



Revenue Assumptions

	<u>FY20</u>	<u>FY21 Proposal</u>	<u>Change</u>	<u>Notes</u>
Appropriations	\$292M	\$246M	-\$46M	Reflects a 15% reduction to operating appropriations, corrects FY20 appropriation
Tuition and Fees	\$1,082M	\$1,019M	-\$63M	Includes additional resident undergraduates, fewer domestic non-resident students, significant international enrollment displacement
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	





Expense Assumptions

	<u>FY20</u>	<u>FY21 Proposal</u>	<u>Change</u>	<u>Notes</u>
Financial Aid	\$185M	\$192M	\$7M	Includes a 4% increase to financial aid budgets
Salary and Benefits	\$909M	\$943M	\$34M	Includes market funding, UNTF contractual raise increment, FY20 annualization amounts, support staff contractual increases, increments for health and other fringe benefits; incorporates PY framework and pass-through additions into FY21 base
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 and \$0.8M in funding for new space requirements
Supplies & Services/Operations	\$256M	\$255M	-\$1M	1% across-the-board SS&E adjustment; \$1M in library collections funding; 2% operations increase, change to budgeted auxiliary abatement
Unit Reductions	0%	-3%	-\$20M	Reflects \$20M in unit reductions
Expenditure offsets	Na	-\$45M	-\$45M	\$30M above-the-match retirement, \$15M/2.3% salary reduction
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	



2020-21 BUDGET DEVELOPMENT GUIDELINES

Overview

The proposed 2020-21 budgets for the University General Fund, MSU AgBioResearch, Michigan State University Extension, and Intercollegiate Athletics total \$1.66 billion, representing a contraction of \$52.6 million compared to budgeted 2019-20 values.

Board action authorizes the administration to develop and implement 2020-21 budgets in accordance with the following 2020-21 Budget Development Guidelines (FY21 Budget Guidelines):

Revenues

1. State appropriations are estimated at \$245.5 million, a decrease of \$46.3 million or 15 percent from FY20 budgeted values. This planning estimate anticipates state funding cuts for 2020-21 Higher Education Appropriations resulting from the coronavirus pandemic.
2. The general fund operating budget for 2020-21 has been developed based on revenue estimates of \$1,446 million. The major revenue items in the budget are: \$245.5 million in appropriations; \$1,019.5 million in tuition and fees; \$89.6 million in other revenues, which are composed primarily of investment income and indirect cost recovery; and \$90.3 million in one-time resources. Additionally, the budget includes pass-through allocations of \$1.8 million in new revenue-based initiatives and research facilitation proceeds.
3. Pursuant to the Board of Trustees action on May 15, 2020, tuition and fee rates for the 2020-21 academic year are frozen at 2019-20 levels. Selected tuition and fee rates including non-resident osteopathic and veterinary medicine have been reduced to better reflect market conditions and an ongoing attempt to limit student debt.

Expenditures

4. Major expenditure items include funding for student financial aid; utilities, including the cost of utilities for newly constructed space; employee compensation; and supplies, services, and equipment increments. A 3.0 percent budget reduction will be implemented in addition to the 1.0 percent program efficiency and reinvestment fund reallocation. Specific expenditure recommendations are:
 - a. Regular student financial aid increase of \$6.7 million, or 4 percent of 2019-20 budget totals.

- b. Continuing utility costs reduction of \$4.7 million, or 9 percent; \$0.75 million in new funding includes utility, facility, and operational costs for newly constructed space.
- c. Employee compensation adjustments, including increases in benefits, of \$24.6 million. Health care cost increase of 3 percent necessary to mitigate current year short-fall and other benefits cost increase of 2.5 percent. Compensation and benefits amounts include \$45 million in temporary reductions to salary and wage levels, above-the-match retirement contributions, and executive management salary.
 - i. A 0.5 percent segment is recommended for market adjustments administered centrally and targeted for ranked faculty, but open to all faculty and academic staff. Centrally administered market raises will be effective October 1, 2020.
 - ii. Stipend ranges for graduate assistants holding research or administrative appointments increase by 2.0 percent. Stipend increases for individual assistants will be determined by the employing units.

Compensation adjustments, including stipends, health care, and graduate assistant tuition waiver, for assistants holding teaching appointments are determined through collective bargaining.
 - iii. Existing minima and maxima pay ranges for student labor increase by 4.0 percent.
 - iv. Increases in pay rates for undergraduate and professorial assistants will parallel student labor adjustments.
 - v. Salary and wage adjustments for most other employee groups subject to collective bargaining agreements.
- d. An increment for supplies, services, and equipment of \$1.5 million or 1 percent. Unit allocations can be differential, based upon identified programmatic need. \$1M in funding for Library acquisitions.
- e. An increment for other budgetary adjustments of \$3 million, which includes funding for additional debt service and other general University purposes. Recognition of \$7 million of tax on auxiliary revenue as an offset to university expenditures.
- f. Budget reduction of 3.0 percent assessed on all major administrative units.

- g. Continuation of 1.0 percent reinvestment fund. Reinvestments address normal year-to-year programmatic adjustments. Over the past 20 years, internal reallocations totaling \$94 million have been implemented across campus.
 - h. Continuation of \$12 million Technology/Teaching and Learning Fund. Allocations from this Fund are made on nonrecurring basis to enhance instructional technology.
5. Expenditures for incremental revenue-based initiatives and research facilitation of \$1.8 million include the following:
- a. Virtual, off-campus, and other programs totaling -\$2.2 million; and
 - b. Indirect cost recovery pass-through to units of \$4.0 million.
6. Funding of \$4.0 million for University initiatives focused on academic competitiveness, and on information technology stabilization, student success analytics, research computing, campus and classroom Wi-Fi improvements, and other technology-based projects.
7. General Fund expenditures for 2020-21 will be based on the budget and, upon completion of the current year, resources carried forward for subsequent expenditure. Carry forward amounts noted in the 2020-21 financial statements.
8. The 2 percent tax on auxiliary income derived from external sources continues in 2020-21. This tax is not levied on internal budget transfers.

General

9. In the event anticipated FY21 general fund revenues are reduced, deferred, delayed, or otherwise vary from the estimates included in these Guidelines, additional one-time resources, unit reductions, or adjustments to tuition and fee rates may be identified to mitigate any revenue variance. Alternatively, in the event the anticipated FY21 general fund revenues exceed the estimates included in these Guidelines, the use of one-time resources will be reduced to offset the revenue increase. Should revenue increases exceed the budgeted value of one-time resources, any temporarily implemented wage and benefit concessions will be reduced or eliminated equal to the amount of the additional revenues in excess of one-time resource need.
10. Budgeted General Fund totals include the transfer of the MSU College of Law into broader campus operations.
11. Other University budgets, including those for MSU AgBioResearch, the Michigan State University Extension Service, and the Department of Intercollegiate Athletics, have been developed within available resources and in accordance with University-wide guidelines for compensation adjustments as outlined above.

12. Proceeds from non-donor, administrative-based trust income may be used to fund just-in-time, debt service, academic infrastructure requirements, or any combination thereof. Expenditures will be reported annually as part of the financial statements. Other sources of funds for these expenses include the 2 percent tax noted in paragraph 8 and debt financing. Just-in-time infrastructure requirements necessary to support University utilities are accounted for in the 9 percent reduction in continuing utility costs.

13. Attachment A contains the summary of proposed budgets for the General Fund, MSU AgBioResearch, Michigan State University Extension, and Intercollegiate Athletics.

**MICHIGAN STATE UNIVERSITY
2020-21 BUDGETS
Overview**

ESTIMATED REVENUES	State Appropriation	Federal Funds	Tuition & Fee Funds	Other	Restricted	2020-21 Total	2019-20 Total	Change
University General Fund	245,480,000		1,019,497,000	181,023,000		\$1,446,000,000	\$1,479,200,000	-\$33,200,000
MSU AgBioResearch	29,990,711	7,315,496			4,241,548	\$41,547,755	45,151,324	-\$3,603,569
MSU Extension	25,869,244	11,666,833		8,700,000	2,407,143	\$48,643,220	53,324,766	-\$4,681,546
Intercollegiate Athletics				128,703,793		\$128,703,793	139,780,662	-\$11,076,869
Total Estimated Revenues	\$301,339,955	\$18,982,329	\$1,019,497,000	\$137,403,793	\$6,648,691	\$1,664,894,768	\$1,717,456,752	-\$52,561,984

ESTIMATED EXPENDITURES	State Appropriation	Federal Funds	University Funds	Other	Restricted	2020-21 Total	2019-20 Total	Change
University General Fund						\$1,446,000,000	\$1,479,200,000	-\$33,200,000
Michigan Agricultural Experiment Station						\$41,547,755	\$45,151,324	-\$3,603,569
MSU Extension						\$48,643,220	\$53,324,766	-\$4,681,546
Intercollegiate Athletics						\$128,703,793	\$139,780,662	-\$11,076,869
Total Estimated Expenditures						\$1,664,894,768	\$1,717,456,752	-\$52,561,984

**Michigan State University
2020-21 General Fund Budget Guidelines**

Attachment B

	<u>2019-20</u>	<u>Approved 2020-21 Budget</u>	<u>Change</u>
Revenues			
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Beginning Base		\$1,479.2	
State Appropriations		(46.3)	
Student Tuition and Fees		0.0	
Enrollment Change		(59.0)	
Other tuition and enrollment actions		(4.0)	
Investment Income Allocation		(18.0)	
IDC inflation factor		2.0	
Indirect Cost Recovery		4.0	
Revenue-Based Initiatives		(2.2)	
One-time Resources		90.3	
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Total Estimated Revenues	<u><u>\$1,479.2</u></u>	<u><u>\$1,446.0</u></u>	(\$33.2)
Expenditures			
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Beginning Base		\$1,479.2	
Financial Aid		6.7	
Salaries & Benefits		24.8	
Utilities & New Space		(4.0)	
Supplies and Services		2.5	
Other Operating		(4.0)	
Framework		4.0	
Research Facilitation Support		4.0	
Revenue-Based Initiatives		(2.2)	
Expenditure offsets		(45.0)	
Base Budget Reduction		(20.0)	
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Total Estimated Expenditures	<u><u>\$1,479.2</u></u>	<u><u>\$1,446.0</u></u>	(\$33.2)