

MSU PLANNING AND BUDGET: 2014 AND BEYOND

As the nation's pioneer land-grant university, Michigan State University embraces its special mission of world-class instruction, research and public service, aimed at growing the value of an MSU degree for our students.

Michigan State starts its budget planning from a lean position, ranking third from last among its Big Ten peers in total financial resources per student. The combination of state appropriations, tuition, and fees per MSU student consistently lags the Big Ten median by approximately \$2,000.

MSU consults with hundreds of internal stakeholders including trustees, deans, academic governance, student groups, organized labor and others over a two-year period to ensure a transparent, collaborative budget planning process.

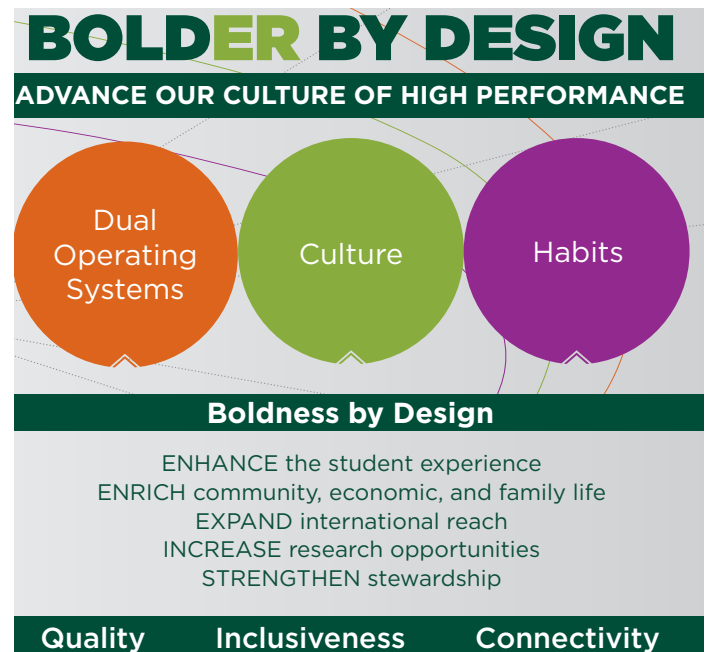
Today's higher education marketplace focuses ever more tightly on value, an effect demonstrated every year by MSU's increasing applications for admissions and by post-graduation outcomes and employer validation. MSU is poised to maintain and expand on its land-grant tradition, bringing the latest in science into practice across the state and around the world as it moves from land-grant to world-grant in its posture. Consistently ranked as a top 100 global university, MSU is a leading edge, world-class university committed to Michigan with exemplary undergraduate and graduate education programs.

Having confronted economic challenges without compromising its values and standards, MSU now is poised to seize opportunities presented by the evolving operating environment. President Lou Anna K. Simon's Boldness by Design initiative,

framed in 2005, aligned MSU's collective work toward five imperatives (see Graphic 1), each founded on the institution's core values of quality, inclusiveness and connectivity.

Today, university leaders are building the framework to be Bolder by Design (see Graphic 1), challenging all of MSU to once again lead the transformation of higher education and, as part of the process, adding a sixth imperative: becoming a model high-performance organization. Bolder by Design establishes the foundation for MSU to continue its role as the world's preeminent land-grant university.

Graphic 1: **Bolder by Design Establishes Framework for the Future**

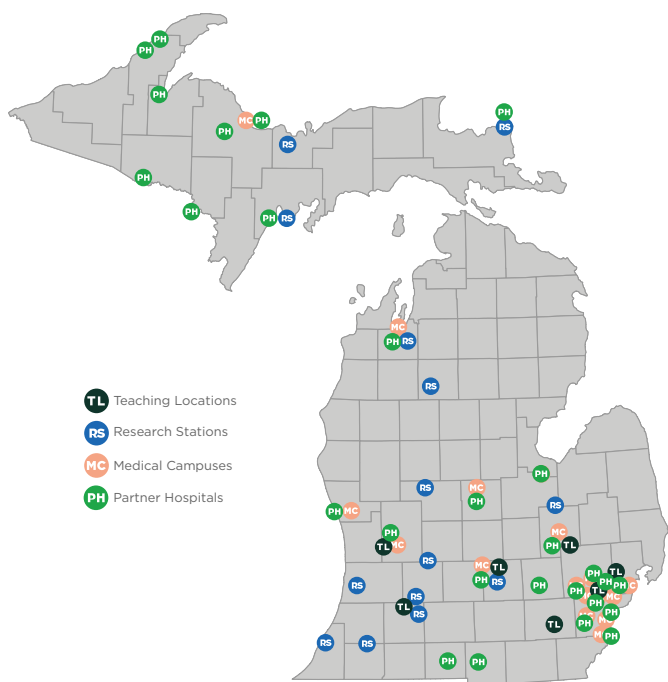


Coupled with a multiyear horizon, MSU utilizes a data-driven, metrics-oriented approach to budget and planning, benchmarking against relevant peers in order to assess efficacy in each of its goals. This approach allows MSU to focus resource allocations in a manner necessary to achieve the programmatic outcomes necessary to fulfill its mission.

Michigan Centric

Michigan State University proudly serves the people of the state, focused on bringing the best and brightest from around the world to Michigan, while providing the best and brightest of Michigan a world-class education. MSU achieves a presence in every Michigan County through its research stations, medical schools, partner hospitals, and MSU Extension presence (See Graphic 2).

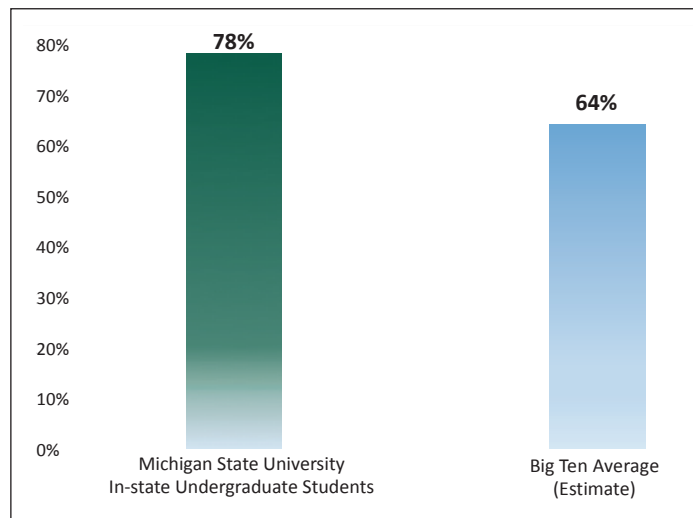
Graphic 2: Michigan Centric: MSU makes an impact



While Michigan State University ranks as one of the top ten institutions for attracting international students and also features approximately 1,400 faculty with international connections, MSU's in-state enrollment is well above the average of its Big Ten peers. Presently, MSU's resident enrollment approximates 78 percent, similar to the enrollment profile

of the 1960's, and approximately 14 percent above the Big Ten average (See Graphic 3). Michigan State University forgoes \$85 million in non-resident tuition due to its Michigan centric enrollment profile when compared with Big Ten peers.

Graphic 3: MSU forgoes \$85 million in non-resident tuition support due to higher enrollment of in-state students



To best balance the requirements of a world-competitive education and student access, fiscal year 2015 tuition is proposed to increase by a composite 2.8 percent for resident undergraduates, with lower division resident undergraduate tuition increasing by 2.6 percent and upper division resident undergraduate tuition increasing by 2.9 percent. Each respective increase represents an amount below the threshold present in prevailing legislative formulas.

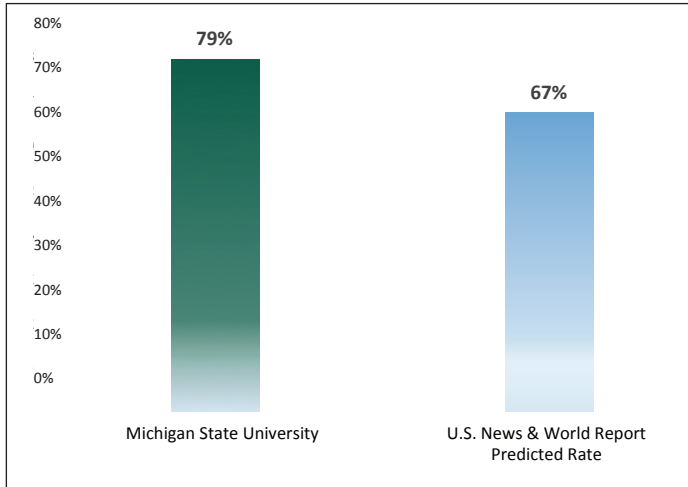
Relentless Pursuit of Excellence and Value

Consistently ranked in the top 100 globally, Michigan State University features 29 programs in the top 20 of the US News and World report rankings. Recognized undergraduate and graduate programs range from Plant Sciences to Nuclear Physics, Education to Community Medicine.

Such quality would count for little if students couldn't complete their studies, but in that regard MSU excels. Michigan State outperforms U.S. News-predicted graduation rates by 12 percentage

points—second in the academically formidable Big Ten conference for this category (See Graphic 4). Further, MSU’s 79 percent six-year graduation rate is 3 percentage points better than the average for similar institutions (Carnegie).

Graphic 4: MSU graduation rates outperforms U.S. News & World Report predicted rate by 12%; second in the Big Ten



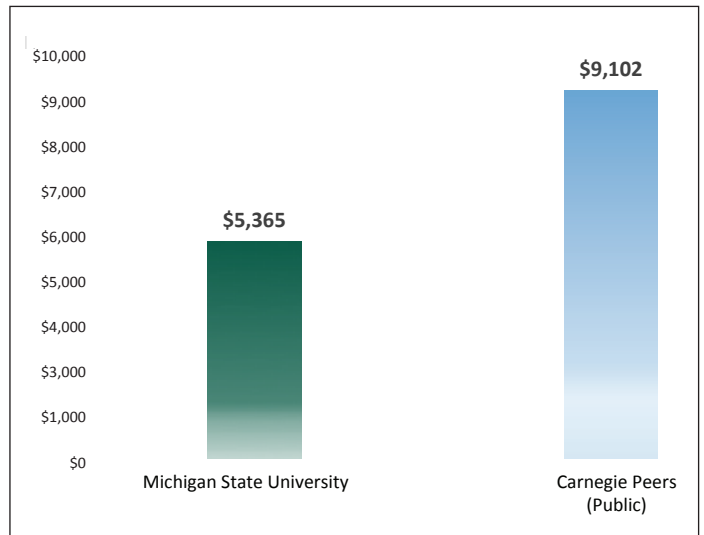
Michigan State University students herald their experience and the value of their education as 92 percent of students rated their educational experience as good or excellent. Further, 82 percent of MSU students would choose MSU for their education if they were to start over. Finally, the quality of MSU graduates is evident in the partnerships MSU has with the nation’s top employers. Not surprisingly, 91 percent of MSU graduates are employed or continue their education within 6 months of departing MSU.

Bolder by Design will help enhance such outcomes through the residential hall neighborhood program, addressing the challenges of persistence, retention, and graduation rates by bringing academic and health support services to where students live. Michigan State also continues to strive to become a recognized center for interdisciplinary, experiential education by leveraging its leadership in study abroad and undergraduate research. The goal is to develop “T-shaped graduates” — people whose frame of reference and skills are both broad and deep—equipping them to thrive in a rapidly changing world where not just knowledge but flexibility and creativity are increasingly important.

High Performance

Navigating through an active period of disinvestment by state lawmakers necessitated MSU to excel in efficiency and effectiveness in all aspects of its operations. While the proposed 5.9 percent increase to state appropriations is a welcomed signal of investment from the state, the fact remains that MSU’s appropriation support has been significantly reduced over the last decade. In fact, if appropriations support had been increased at the rate of inflation over the last ten years, MSU appropriations would be \$120 million greater than current levels, adequate to offset tuition by 15 percent as an example. On a constant dollar basis, MSU operates with \$44 million less than it did ten years ago and approximately \$3,700 less per student than its public Carnegie peers (See Graphic 5). If MSU were to receive appropriations at the average of its public Carnegie peer group, appropriations would be \$166 million more than current levels.

Graphic 5: MSU appropriations per student lag public Carnegie peers by approximately \$3,700 per student



MSU seeks to further its efforts in efficiency and stewardship, streamlining daily operations in order to have the nation’s model university workforce. MSU consistently ranks among the leaders in the Big Ten in employee-to-student ratio, energy cost and consumption, and landscape and facility maintenance area per full-time-equivalent staff.

Leadership in operational efficiency comes from a long-term commitment to a forward forward-leaning, multi-year, evidence-based approach to planning and management across the university. MSU encourages a culture of accountability, aimed to produce habits, practices, and discipline for delivering high-impact, high-value results. MSU's dedication in this area is evidenced by an average core budget change of 1.90 percent over the last five years, similar to the average Higher Education Price Index for the five year period ended 2013 of 1.8 percent.

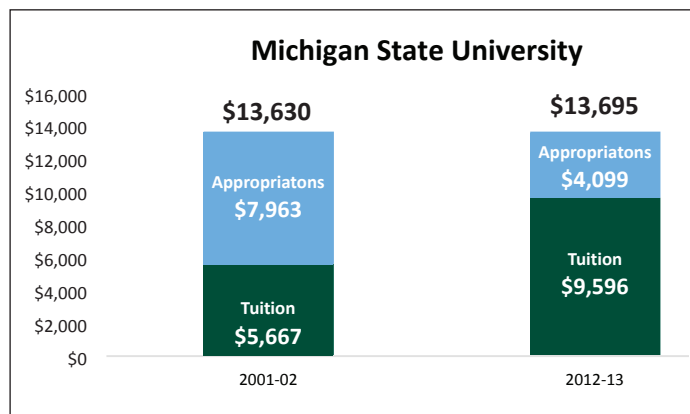
In addition, MSU has averaged 2.4 percent in budget growth over the same period related to positive growth in on-campus enrollment, targeted off-campus and virtual academic program expansion, indirect cost revenue increases related to research growth, academic competitiveness initiatives, and increased investment in institutional financial aid to assure access.

MSU's ability to constrain budgetary growth and enhance value to students is demonstrated by its lowest energy costs among AAU peers, the most efficient grounds and maintenance operations amongst AAU peers, and health care cost growth below national indices 8 of the last 10 years.

Middle Class Intensive

Michigan State University reflects its land-grant tradition in assuring access to a world-class education, regardless of socio-economic background. When comparing to 2001-02 levels, MSU revenues are constant when adjusted for inflation (See Graphic 6).

Graphic 6: Revenues constant after inflation

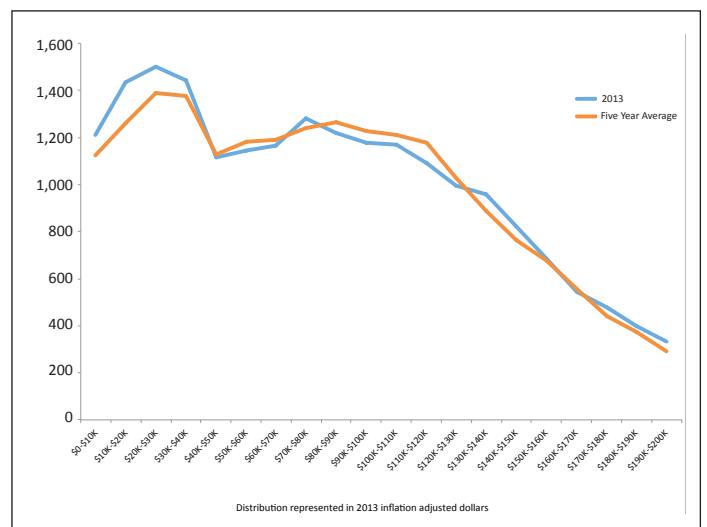


Talent development is perhaps the most fundamental role of higher education, and access is its foundation. MSU enrolls 17 percent of all Michigan public university students, a group that claims 78 percent of MSU's undergraduate enrollment. More than \$115 million is dedicated in the 2013-14 budget to financial aid, helping allow MSU to enroll 4,500 more students than 10 years ago.

Financial aid outlays continue to increase at a rate greater than resident undergraduate tuition and fees, amounting to a 66 percent increase over the last five years. For 2014-15, financial aid is anticipated to increase 4.0 percent, exceeding the composite resident undergraduate tuition increase. The impact of approximately \$115 million in institutional financial aid pushes the university's effective tuition rate approximately 14 percent below published levels.

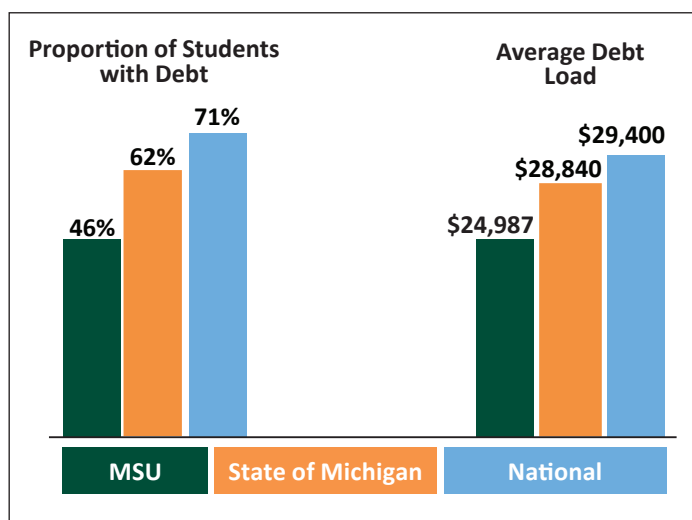
MSU focuses much of its financial aid resources on assuring access to education for those from the lowest income levels. When compared to its 5 year average, MSU continues to increase the number of students from families making less than \$30,000 annually (See Graphic 7). As a result of MSU's focus on low income students, MSU enrolls over 9,000 Pell students, more than 1 of every 5 on campus and 80 percent more than the average of our Carnegie peers.

Graphic 7: MSU increasing number of low income students



In addition to MSU's focus on low-income students, MSU's dedication to value and student aid has resulted in less than half of undergraduates leaving campus with debt, a significantly smaller proportion than the state and national averages (See Graphic 8). In addition to the proportion of students with debt, MSU's students leave with approximately 14 percent less debt than the State of Michigan average and 15 percent less than the national average.

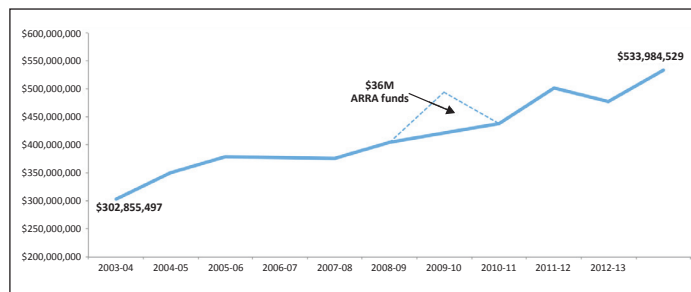
Graphic 8: MSU student borrowing ahead of benchmarks



Research

MSU continues to be a leader in creating knowledge for the 21st century. MSU's research momentum is evidenced by its steadily growing external funding, reflecting the strength of its academic reputation and the creativity and expertise of its faculty. With nearly \$480 million in external support in 2012-13 (see Graphic 9), MSU's sponsored programs have grown 62 percent over the last decade, despite the economic challenges during the period. In addition, during the last period for which full data are available (2011-12), MSU's year-over-year increase in sponsored research expenditures of 11.6 percent was first in the Big Ten.

Graphic 9: MSU contractual support up 62 percent over ten years



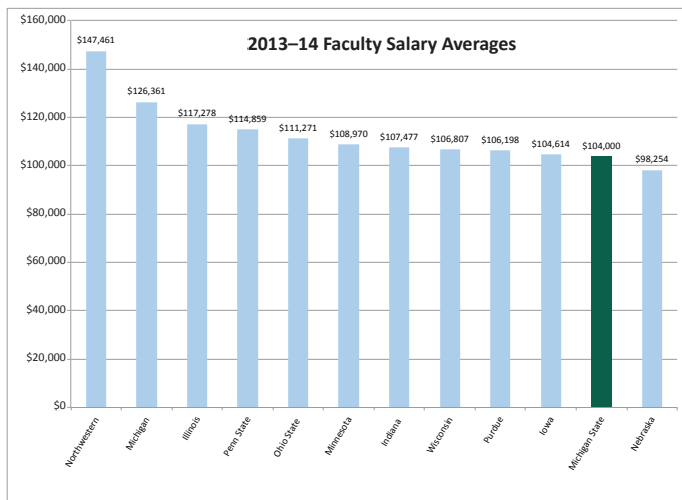
Among the university's many distinctive programs, the MSU nuclear science program is one of the most highly regarded internationally. MSU has supported nuclear science through cyclotron research since the 1960s, and today U.S. News and World Report ranks the university as the nation's top nuclear physics graduate program. The MSU-DoE Facility for Rare Isotope Beams (FRIB) is an important part of Michigan's economic future as well as a significant boost for MSU's global scientific leadership. Total economic activity for FRIB over the next decade is estimated at \$1 billion, with \$187 million in new tax revenues; 5,000 construction jobs; employment of 400 scientists, engineers and other staff; and annual attraction to Michigan of 800 scientists from around the world.

MSU research draws special strength from a variety of large, interdisciplinary initiatives, including the multi-institutional Bio/computational Evolution in Action Consortium (BEACON) and the Great Lakes Bioenergy Research Center. The MSU-DoE Plant Research Laboratory, the Center for Advancing Microbial Risk Assessment, the Institute for Cyber-Enabled Research, the Center for Research on Ingredient Safety, and the Center for Systems Integration and Sustainability exemplify research excellence and productive collaborations on campus. Research impact is promoted statewide at sites such as the MSU Grand Rapids medical campus, the MSU Bioeconomy Institute in Holland, and the Midland Research Institute for Value Chain Creation.

Michigan State University strives for continuing and enhanced excellence — and corresponding growth in extramural support — across all scholarly disciplines. In keeping with the institution’s Bolder by Design strategic planning, MSU seeks to sustain national research preeminence in both nuclear and plant sciences, teacher education, and supply chain management, while competing aggressively to build stature in new research domains, such as brain and cancer genomics, big data analytics, and nanotechnology.

With approximately \$500 million in annual awards and 12,000 undergraduates participating in research opportunities annually, it is important for MSU to attract and retain the world-class faculty capable of producing and disseminating the key discoveries of the 21st century. Presently, MSU’s faculty salaries rank 11th of 12 Big Ten institutions (See Graphic 10). When adjusting for total compensation, MSU faculty rank 7th of 12 Big Ten institutions. However, a portion of total compensation is attributed to post-retirement health care benefits that were not offered to spouses of new faculty after July 1, 2005 or any new faculty members after July 1, 2010. As the impact of this benefit migrates out of the total compensation calculation, MSU is projected to rank 11th of 12 Big Ten schools. To improve competitive standing, current planning indicates a salary program to include a 2.0 percent merit allocation, a 0.5 percent college-level market increase, and a 0.5 percent central market increment recommended for implementation October 1st.

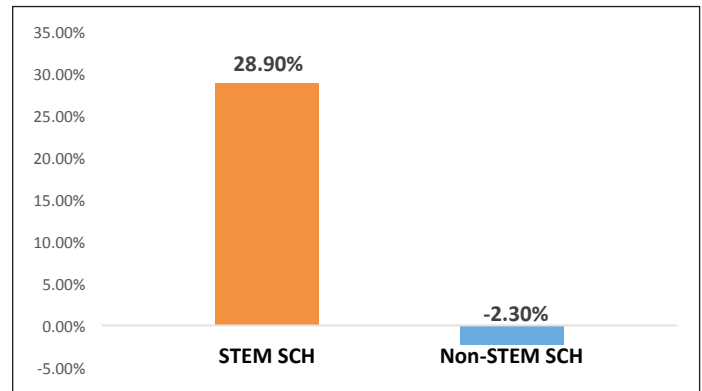
Graphic 10: MSU faculty salaries rank 11th in the Big Ten



Collective Power to Move Michigan

MSU is a vital engine of Michigan’s prosperity, leaving an annual \$5.0 billion economic footprint that includes spending nearly \$470 million each year with state businesses. MSU has a presence in every Michigan County, training physicians at over 35 partner hospitals, operating 14 AgBioResearch centers from Benton Harbor to Saginaw to Escanaba. After graduation, Spartans become leaders, entrepreneurs, volunteers, and contributors to their communities, fulfilling the intent of our 19th-century founders. Currently, over 230,000 alumni reside in the state of Michigan. Additionally, Michigan State University has positioned itself to provide the state with the type of graduates’ employers demand and are necessary to drive economic growth in the 21st century. In fact, over the last ten years STEM-based student credit hours have increased by approximately 29 percent, while non-STEM credit hours have decreased by 2.3 percent over the same period (See Graphic 11)

Graphic 11: MSU providing educated workforce necessary to move Michigan forward



We want our graduates enter a healthy job market in Michigan, and that requires economically healthy communities. We were working with farmers to improve productivity even before the government began to fund Extension and agricultural experiment stations a century ago, so outreach is part of our land-grant DNA. Today, we’re active locally and across the state, assisting community developers, entrepreneurs and large employers alike.

In partnership with MSU, the Prima Civitas Foundation recently expanded its “networks of networks” concept statewide. More locally, MSU continues its support of the Lansing Economic Area Partnership, dedicated to revitalizing business in the capital city area.

Since 2004, the Product Center Food-Ag-Bio has helped 2,125 Michigan entrepreneurs create or expand some 254 businesses, generate \$317 million in annual sales, and create or retain 1,460 jobs.

MSU Extension and MSU AgBioResearch are positioned to build upon their roles as key economic partners for the state. AgBioResearch and MSU Extension anticipate a 5.9 percent increase in direct, operational appropriations.

In the last five years, MSU has refreshed its approach to intellectual property and the creation of economic value from innovation. We reorganized our tech transfer office into MSU Technologies in 2007. In 2009, MSU developed Business-CONNECT for more effective engagement with the private sector. Last year, we rolled out Spartan Innovations, which we created in partnership with the MSU Foundation, as the “third leg” to our enterprise. Now, all three of these units are gathered under the organization of the MSU Innovation Center.

MBI is a biobased technology scale-up plant in Lansing associated with MSU that focuses on de-risking technologies for faculty and corporate research partners, including cellulosic ethanol development scale-up. The MSU Bioeconomy Institute in Holland is a former Pfizer plant and labs devoted to research and development of biobased technologies. It also houses a regional technology business incubator, operated in cooperation with Lakeshore Advantage.

The MSU Entrepreneurship Network is an innovation-focused course leading to a certificate in entrepreneurship that also is open to nonstudents. The university oversees in excess of \$1.6 million in endowed funds to capitalize qualifying student business plans. Michigan State’s student start-up initiative also is supported by the student business

incubator. The Hatch, a campus/community cooperative project, is located in the East Lansing Technology Incubation Center close to MSU Innovation Center offices.

Future Outlook

MSU’s long-term success relies on the institution’s ability to fulfill the goals laid out in Bolder by Design. The cultural component of the framework includes raising expectations; focusing on the most vital issues and opportunities; improving measurement and assessment; reforming work habits; and even managing innovations that nurture more than incremental operating improvements.

In order to remain a leading institution in a world where other states and nations are investing heavily in higher education, MSU also will need to focus investments in the areas with the most impact by annually leveraging institutional and interdisciplinary assets through constant improvement in efficiency and effectiveness. To this end, the 1 percent program efficiency reinvestment fund will continue to be assessed across MSU operating units, annually generating approximately \$5 million for strategic reinvestment across disciplines.

In addition, due to MSU’s ability to constrain certain expenditures from previously forecasted levels, MSU’s operational efficiency allows for an increased investment in faculty salaries in the form of a \$3.0 million allocation to colleges inclusive of a 1.0 percent merit pool to be effective January 1, 2015 and awarded to key faculty and staff. Additionally, a recurring \$8.7 million allocation to fund academic competitiveness initiatives at the university-level will focus on undergraduate education; sustaining plant science successes; expansion of engineering disciplines, including biomedical engineering; computational sciences emphasizing existing strengths in biology; food safety; population and community health; the environment, including food, water, and energy; and the application of molecular and genetic techniques across plants, animals, and people.

Summary budget development information is presented below (see Graphic 12).

Graphic 12: MSU Budget Overview

Budget Item	2014-15 Adjusted	2015-16 Planning Update
State Appropriations	5.90%	4.00%
Tuition & Fees	2.6% Lower Div 2.9% Upper Div	4.0% Lower Div 4.0% Upper Div
Financial Aid	4.00%	4.50%
Graduate Assistants	1.50%	1.50%
Faculty Salaries*	2.0% + 0.5% + 0.5%	2.0% + 0.5% + 0.5%
Utilities	4.00%	4.00%
Health Care	<u>3.00%</u>	<u>5.00%</u>
Subtotal	\$1,195.70	\$1,249.00
Academic Competitiveness		
College	\$3.00	\$1.50
Central	<u>\$8.70</u>	<u>\$6.30</u>
Total Budget	\$1,207.40	\$1,256.80

Preliminary 2014-15 budget approved by the BOT in June 2013

* Includes 2.0% general merit and 0.5% Provost market pool for October 1 implementation.