

## **Faculty Senate Special Meeting**

### **Agenda Item 7.3.**

## **Financial Impacts of COVID-19 / Proposed 2020 – 2021 University Budget**

**June 23, 2020**

## 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 projects and reserves to mitigate near-term disruptions and provide additional lead-time for further planning**
- **Proposed FY21 budget represents best known assumptions after considering multiple cases**
- **Identified contingencies for responding to budget assumption variances**
- **Recognize continuing uncertainties**

# FY 2020

- **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%
    - Furlough option negotiated with support staff unions, project 600-800
      - Savings of \$3M per month from RHS alone
    - Capital projects review
  - Use of reserves to close the gap and assure program/service continuity
  - Substantial immediate auxiliary unit impacts

# Revenue Assumptions

	<u>FY20</u>	<u>FY21 Proposal</u>	<u>Change</u>	<u>Notes</u>
Appropriations	\$292M	\$246M	-\$46M	Reflects a 15% (\$46M) reduction to operating appropriations
Tuition and Fees	\$1,082M	\$1,019M	-\$63M	See next page
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, including facilities funding (\$74M) and reserve of (\$16M)
Indirect Cost Recovery and Pass-Through Additions	Na	\$2M	\$2M	Increments for online/distance education programming and indirect cost recoveries
<b>Total Revenues</b>	<b>\$1,479M</b>	<b>\$1,446M</b>	<b>-\$33M</b>	

# FY21 Tuition & Fees / Enrollment Assumption Notes

	<u>Amount</u>	<u>Notes</u>
Resident Enrollment	\$9M	Increase by 11%, first-time entering +700 students
International Enrollment	-\$53M	Reduce by 75% of entering undergrads & grads - 765 students Reduce by 20% of returning undergrads & grads - 930 students
Domestic Non-Resident	-\$15M	Reduce by 10% of entering and returning undergrads – 520 students
Summer Semester	-\$4M	Adjustment to recognize summer 2019 actual enrollment
Total Enrollment Change	-\$63M	

# Expense Assumptions

	<u>FY20</u>	<u>FY21 Proposal</u>	<u>Change</u>	<u>Notes</u>
Financial Aid	\$185M	\$192M	\$7M	Includes a 4% (\$6.7M) increase to financial aid budgets
Salary and Benefits	\$909M	\$943M	\$34M	See next page
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	\$30M above-the-match retirement, \$15M/2.3% salary reduction
Framework/Pass-Through Additions	\$10M/\$2M	\$4M/\$2M	Na	See next page
<b>Total Expenditures</b>	<b>\$1,479M</b>	<b>\$1,446M</b>	<b>-\$33M</b>	

# Expense Assumptions -- Notes

	<u>Amount</u>	<u>Notes</u>
Salary and Benefits	\$34M	Includes faculty market funding (\$3M), FY20 annualization amounts (\$3.5M), contractual increases (\$6.5M), increments for health (\$3) and other fringe benefits (\$6M); incorporates prior year framework and pass-through additions into FY21 base (\$12M)
Framework/Pass-Through Additions	NA	Framework includes \$3M recurring for technology, \$1M for Academic Competitiveness; Pass-through allocations Increment for online/distance education and indirect cost recoveries of \$2M

# Auxiliary Impacts

## Intercollegiate Athletics

- Athletic planning projects budgets for 20220-21 of \$128.7M, a decline from the current year of \$11.1M and includes a planned \$15M reserves contribution
- This budget is based upon a fall football season with safety measures including diminished attendance related to social distancing in the stands

## 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
- Approximately 810 employees are impacted by furloughs and reductions to temporary/on-call employees.



# Michigan State University – FY21 Contingencies

- **In the event of material FY21 revenue and expense variances:**
  - Review materiality of variance to determine strategies and options
  - Update Board of Trustees Finance Committee on budget variances

Options for Identifying Additional Reductions	Priorities for Additional FY21 Revenues
Additional one-time resources (e.g. Utility reserve, Essential Edge, Long-Term Infrastructure Reserve)	Decrease/eliminate one-time resource draws  Restore unit reductions
Additional reductions (Across-the-board, differential)	
Additional salary & benefits concessions	
Short-term external financing	
Capital asset monetization (e.g. Parking, Other)	

# 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 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