

Budget Update

January 12, 2022

Background and Context for Budget Decisions

- **MSU faced projected general fund deficits heading into FY21 even prior to the pandemic**
 - Lower international enrollment than planned led to tuition revenue shortfall
 - Related tuition revenue shortfall will continue as cohorts progress
 - Lawsuit settlement resulted in \$20M per year in debt service to fund payout
 - Two-year budget framework passed for FY19-FY20 limited ability to respond to changing conditions
- **Onset of pandemic exacerbated projected budget shortfall**
 - FY21 Budget scenario analyses prepared just as National Emergency was declared
 - Situation was fluid; multiple outcomes and solutions were evaluated
 - Significant uncertainty about potential outcomes
 - CARES Act passed in late spring but use of funding was limited to transactional activities directly related to the pandemic; housing refunds specifically identified as eligible by Dept. of Ed
 - State of Michigan projected revenue declines; cuts of 15% estimated
 - Stock market dropped in mid-March 2020 by nearly 20% from February values
- **Administration engaged in discussions with University Committee on Faculty Affairs Budget Subcommittee**
 - Developed guiding principles to frame decisions
 - Need to preserve sufficient cash liquidity to meet debt service and other financial obligations

FY21 Budget set during time of significant uncertainty when US economic projections were negative

Guiding Principles for Decision Framework

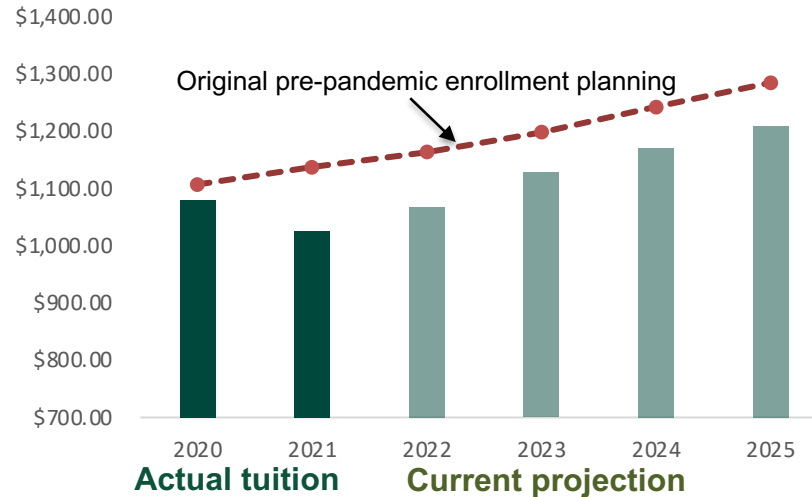
- **Actions taken should reflect shared sacrifice**
 - Initial proposal was 2.3% across-the-board reductions for all faculty, academic staff and executive management
 - Feedback through shared governance process resulted in revised approach
 - Minimize impact to lower earners, under \$50K exempt; scaled reductions ranged from 0-10%
 - Exempt Post Docs from salary reductions
 - Faculty and academic staff reductions planned for 12 months, executive management for 14 months
 - Avoid staffing reductions to the extent possible
- **Support staff impacts and timing varied**
 - No general salary reductions, but significant furloughs with those staff having no income
 - Commitment to maintain health benefits
 - Benefits concessions delayed as part of overall contractual discussions; start January 2022 to last 18 months
- **Commitment to restore salary and benefits as soon as possible**
 - Faculty and academic staff salary reductions occurred for 10 months, restored 2 months early
 - Executive management salary reductions 14 months, restored on time
 - Retirement benefit match reduction for 18 months, restored 6 months early

Budget Outlook

- **Evaluation must focus on General Fund**; other revenues are restricted to particular purpose (e.g. grants and gifts in departments) or have limited fungibility with other sources
 - General fund sources include net tuition, state appropriations, Facility & Administration recovery revenue
 - Represents ~50% of total funds
 - Excludes capital, grants, gifts and auxiliary revenue
- **Initial projections did not include any estimates of costs related to the pandemic**
 - Funding for those were TBD
 - FY21 funded costs were \$9M; FY22 costs to be funded expected to exceed \$30M
- **While revenue declines were not as deep as budgeted, expense savings actions were also not as robust**
 - General fund deficit \$61M in FY21
- **Strategic Plan calls for aligning budget with strategic goals. Future decisions must be made in this context**
- **Despite all actions taken, including salary and benefit actions, 3% in unit budget cuts in two consecutive fiscal years, and tuition increases, general fund is expected to require one-time support for multiple years**
 - One-time funding of more than \$146M in excess of institutional HEERF funds through FY24
 - Deficit was anticipated with planned use of reserves and investment income used to bridge shortfall

Enrollment and Tuition Revenue Patterns: Pre-pandemic

- Enrollment strategy developed in FY16/17 projected increased international and domestic non-resident enrollment to generate higher net tuition revenue
- Actual change to enrollment distribution represents loss of approximately \$25M in annual tuition revenue; includes significant international student enrollment reduction prior to pandemic
- **Relative to pre-pandemic planning, tuition revenue shortfall continues annually, growing to \$80M by end of period; FY21 Budget recognized need to reset projections**



Pandemic Years Enrollment Outcomes

- Based on lower enrollments experienced through Fall 2019, reset Fall 2020 projections and thereafter
- Despite record incoming class, Fall 2021 enrollment 2% lower than pre-pandemic peak
- Combined with lower summer revenue, tuition projections continue to lag pre-pandemic levels by approximately \$42M
- **Over the cohort's course of study, tuition lower than anticipated by \$160M over four years, in addition to the shortfall to planning experienced through Fall 2019**

Student Type	Fall 2016	Fall 2017	Fall 2018	Fall 2019	Pandemic Impact	
					Fall 2020	Fall 2021
Resident	29,509	29,546	30,521	30,464	30,799	30,786
Non-Resident	4,568	4,834	4,885	5,111	5,036	5,568
International	5,008	4,616	4,017	3,601	2,656	2,220
Total Undergraduate	39,085	38,996	39,423	39,176	38,491	38,574

FY21 General Fund Budget Result

2020-21 General Fund Budgetary Assumption	Initial Forecast	Revised	Change
State appropriations reduction	(\$46M)	\$0	\$46M
Tuition revenue shortfall	(\$62M)	(\$52M)	\$10M
Other general fund revenue declines	(\$14M)	(\$14M)	\$0
Inflationary and strategic cost increases	(\$33M)	(\$33M)	\$0
Pandemic expenses	\$0	(\$9M)	(\$9M)
2020-21 Resource Needs	(\$155M)	(\$108M)	\$47M
2020-21 Resource Recovery Strategies	Initial Forecast	Revised	Change
3% unit budget reduction for all MAU's	\$20M	\$20M	\$0
FAS retirement-match adjustment	\$20M	\$20M	\$0
FAS scaled pay reductions	\$10M	\$7M	(\$3)
CLO retirement-match adjustment	\$10M	\$0M	(\$10)
CLO scaled pay reductions	\$5M	\$0M	(\$5)
2020-21 Resource Recovery	\$65M	\$47M	(\$18)
Surplus/(Deficit)	(\$90M)	(\$61M)	(\$29M)

While somewhat better than original forecasts, FY21 General Fund required \$61M in one-time support

FY21 Net Position: Notable Changes

- University net position increased significantly in FY21; nearly doubled
- Change largely derived from two sources

Other Post Employment Benefits (OPEB)
<ul style="list-style-type: none">• Introduction of new University retirement healthcare plans and provider (Humana) combined with changes in accounting requirements results in a \$1.7B change to long-term university obligations• Improvement to university net position supports overall evaluation of financial health but does not indicate additional expendable resources
Change: +\$1.7B

Unrealized Investment Gains
<ul style="list-style-type: none">• Accounting standards require recognition of the change in the value of the investments as revenue at year-end, even when those changes are not realized and are not cash returns• Endowment spending policy utilizes 5-year, quarterly average of Common Investment Fund unit value for distributions to comply with fiduciary requirements• Includes true endowment as well as university cash investments.• Largely invested in illiquid investments which would incur significant loss if liquidated
Change: +\$0.9B

Neither are expendable, both represent non-cash accounting entries and cannot be used to offset the general fund deficit

Central Investment Income

- Campus cash-flow needs stable and predictable
- Allows institution to invest fund balance in long-term trusts
- Earnings approximate 6.25% annually, fluctuates with market
- Payout and realized gains available for allocation; unrealized gains not expendable and likely to result in significant market loss if liquidated
- Fund critical ongoing activities; FY20 and FY21 balance source for restoration of FAS concessions and Gratitude payments
- Reserve funds backfill commitments when earnings less than anticipated, and critical to maintaining credit rating

Investment Income	"Typical" Year	FY20	FY21
Central Campus Investment Income	\$97.0	\$119.7	\$127.7
<i>Uses of Funds</i>			
General Fund Budget Offset	\$29.3	\$29.3	\$11.3
Settlement Debt	\$19.5	\$21.3	\$19.5
STEM/Other Debt	\$10.5	\$7.0	\$10.5
Capital Renewal	\$20.0	\$6.0	\$9.5
Other Settlement Costs		\$29.7	\$7.6
Other Projects	\$5.0	\$17.0	\$3.7
<i>Obligated in FY22, will reflect as use of reserves</i>			
Restore FAS Retirement			\$10.0
FAS 2% Raise (CY portion)			\$5.0
Gratitude Payments			\$27.0
Total Allocations & Expenditures	\$84.3	\$110.3	\$104.1
Balance	\$12.7	\$9.4	\$23.6

FY22 GF Budget Planning

- FY22 budget planning included:
 - Tuition increases
 - One-time appropriations funding
 - Ongoing enrollment shortfall
 - Inflationary and strategic investment cost increases
 - Unit budget reductions
 - FAS benefits concessions

- FY22 budget updated to add:
 - 2% FAS merit
 - Restoration of FAS retirement match
 - \$1,500 gratitude payment to all faculty & staff
 - \$30M in COVID mitigation costs to date
 - CLO concession timing

- Updated FY22 actions require an additional \$89M in one-time resources

2021-22 General Fund Budgetary Assumption	Initial Forecast	Revised	Change
Tuition revenue backfill	(\$42M)	(\$42M)	\$0
Inflationary and strategic cost increases	(\$65M)	(\$65M)	\$0
COVID Compliance Costs	\$0	(\$30M)	(\$30M)
2% FAS raise (current year portion)	\$0	(\$5M)	(\$5M)
Gratitude Payments (All faculty & staff)	\$0	(\$27M)	(\$27M)
2021-22 Resource Needs	(\$107M)	(\$169M)	(\$62M)

2021-22 Resource Recovery Strategies	Initial Forecast	Revised	Revised
3% unit budget reduction for all MAU's	\$21M	\$21M	\$0
FAS retirement-match adjustment	\$20M	\$10M	(\$10M)
CLO Retirement Concessions	\$0	\$4M	\$4M
Tuition rate adjustments (includes RBI increment & IM fee)	\$30M	\$30M	\$0
State Appropriations (one-time)	\$11M	\$11M	\$0
F&A Revenue Adjustment	\$4M	\$4M	\$0
2021-22 Resource Recovery	\$86M	\$80M	(\$6M)
Surplus/Deficit	(\$21M)	(\$89M)	(\$68M)

HEERF Institutional Grants

- Federal grants enacted throughout FY21, providing additional resources to campus
- Emergency grants to students (not included below) may not displace current financial aid; and must immediately pass through to students
- Require compliance with grant agreement and federal reporting requirements

Institutional Funding	Awarded	Reimbursed	Remaining	Significant Components
CARES (HEERF 1)*	\$14.9M	\$14.9M	\$0	<ul style="list-style-type: none"> • Housing refunds • COVID expense • Use limited to documented transactions directly related to disruptions in operations due to COVID
HEERF II	\$30.9M	\$30.9M	\$0	<ul style="list-style-type: none"> • Lost tuition revenue • Testing for student athletes
HEERF III	\$40.8M	\$2.5M	\$38.3M	<ul style="list-style-type: none"> • Anticipate \$30M+ reimbursement for ongoing costs related to pandemic • Receipt in FY22

Multiyear Impact

- Budget projections indicate use of one-time funds through FY24, even after FAS and CLO actions
- In total, GF budget relies on \$215M, exceeding the combination of originally identified university reserves & capital projects (\$90M) and available HEERF proceeds (\$69M)
- Enrollment and inflationary cost increases influence future fiscal year projections
- COVID mitigation costs ongoing, difficult to estimate due to emerging variants and necessary testing and safety efforts

<i>(\$millions)</i>	FY21	FY22	Est. FY23	Est. FY24
Revenues	\$1,409	\$1,464	\$1,556	\$1,609
Net Expenditures	\$1,470	\$1,553	\$1,587	\$1,643
Surplus/(Deficit)	(\$61)	(\$89)	(\$31)	(\$34)
HEERF Backfill	\$28	\$41	\$0	\$0
One-Time Funds Required	(\$33)	(\$48)	(\$31)	(\$34)
Four-Year Funding Needs				(\$146)
Capital and Reserve Funding Previously Identified				\$90
Additional Reserves/One-time Funds to Bridge General Fund Deficit				(\$56)

One-Time Funding Summary

- **Existing and estimated one-time funding needs exceed currently identified totals, including HEERF grants**
- COVID mitigation costs ongoing, difficult to estimate due to emerging variants and necessary testing and safety efforts
- General fund one-time needs influenced by enrollment and tuition policy, cost increments

Sources of One Time Funding	Amount
HEERF I	\$14.9
HEERF II	\$30.9
HEERF III	\$40.8
Initial Central Reserves & Deferred Capital Projects	\$90.0
Total Available	\$176.6

Uses of One Time Funding	Amount
Residential and Hospitality Services	\$13.7
Athletics COVID Testing	\$3.6
FY 21 General Fund One-Time Funding	\$61.0
FY 22 General Fund One-Time Funding	\$89.0
FY23 General Fund One-Time Funding (Est)	\$31.0
FY24 General Fund One-Time Funding (Est)	\$34.0
Total Planned Uses	\$232.3

Funding to be Identified	(\$55.7)
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**Estimate through December 2021; likely to increase with latest variant*

Summary

- **MSU budget projections anticipated general fund shortfall prior to the onset of the pandemic**
 - 3% annual budget reductions in two consecutive years were intended to partially address the expected shortfall
- **The pandemic introduced significant uncertainty.** Guiding principles and actions were informed by consultation with Academic Governance
- **Budget impact anticipated through FY24**
 - Requirement to use one-time funds to support general fund planned as bridging strategy
 - Plan to use \$215M in institutional HEERF grants, one-time realized investment income and reserves over four years
- **Salary and benefit reductions were restored earlier than initially projected**
- **Ongoing work required to align strategic goals with budget as delineated in the Strategic Plan**

Ongoing need for use of \$56M in one-time funds over four years, in addition to one-time funds identified in FY21 budget planning was expected. Use of reserves aligns with bridging strategy to manage through pandemic-related impacts