Overview
Preserving Value In Difficult Times

MSU has added significant value for stakeholders and must now preserve and where possible build upon that value even in these most uncertain, challenging times

- Best prepared entering class of the last ten years

- Awarded the F-RIB project by the DOE

- 20 percent of entering undergraduate class from outside Michigan, including a record number of international students

- Student faculty ratio improved to 16:1

- Boldness by Design elements closely linked to emerging national priorities

- Emerging research areas positioned for growth
Surveying the Environment

• Nationally as well as internationally, speculation continues over the length and depth of the economic down-turn

• Significant changes to the auto industry likely

• Current circumstances add to complexity of existing structural deficit at state level

• American Recovery and Reinvestment Act of 2009 has potential on a one-time basis to increase state budget resources generally and assist MSU specifically
Emerging Points of Concern

• Vigilance and planning are necessary to assure reasonable stability in a variety of areas across the campus, not just appropriations

  • Student recruitment and retention including potentially increasingly elastic tuition rates

  • Maintaining instructional quality and capacity

  • Increasing competition for contract and grant resources

  • Sustaining income from sources including medical practices, theater and arts programming, and intercollegiate athletics

  • Building advancement income and endowment returns
Others Institutions

• With the exception of Indiana, all Big Ten states anticipate reduced appropriation support

• Illinois, Michigan, Minnesota and Wisconsin anticipate reductions that could range as high as 7 to 10 percent

• Most institutions are sensitive to tuition increases in this climate – typical discussion at this early point is in the range of 5 percent

• Several institutions targeting expenditure reductions, some focused on SS&E type expenditures, others looking for percentage reductions to the entire institution

• Several institutions considering salary freezes (or limited growth), others implementing voluntary work reduction (% FTE), many also implementing or considering work furloughs

• Other strategies include endowment spending policy reductions, maintenance deferral, and debt issuance
The Numbers
Budget balance, reserves, and liquidity all influence the ability to cope with changing economic circumstances. Each of these elements is presented below in terms of their relative performance heading into a period of economic uncertainty.

<table>
<thead>
<tr>
<th>Fiscal Element</th>
<th>2000</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balanced Budget</td>
<td>↑</td>
<td>↓</td>
</tr>
<tr>
<td>Reserves</td>
<td>↑</td>
<td>↓</td>
</tr>
<tr>
<td>Liquidity</td>
<td>↑</td>
<td>↓</td>
</tr>
</tbody>
</table>

Source: Michigan Citizens Research Council
State of Michigan Revenue Forecasts

Revenue forecasts decline 9%

Consensus '08-09: $8.9
Revised '08-09: $8.3
Preliminary '09-10: $8.1

Budget balanced to $9.7B expenditure budget through revenue sharing and other adjustments

Source: Michigan Joint Revenue Projection
Impact of Appropriations

Reductions

If appropriations grew at HEPI five year average of approximately 4%, MSU would receive $12M in new support for 09-10

State budget concerns indicate a 10% structural deficit. That translates into roughly $29M is lost appropriation for MSU
State Financial Indicators

**Budget Position and Reserves:**

- Budget “balance” achieved in each of the last 7 years
- Each year has come at a cost to MI’s bottom line
- Michigan fund balances down from $4.35B in 2000 to $1.0B in 2007

**Liquidity:**

- Cash position deteriorating
- Immediate payables in excess of cash assets by roughly $1.75B at year-end 2007
- Enhancements to income tax and business tax expected to improve this position in fiscal ‘08 and fiscal ‘09

Source: Michigan Citizens Research Council
The Stimulus Package

Some analysts believe that the American Recovery and Reinvestment Act could be substantial enough to largely offset state revenue losses for approximately one year

- Direct aid to states including support of Medicaid program
- Numerous components of the Department of Education section will impact MSU
  - $6B for higher education modernization, renovation, and repair
  - $16.1B in new student assistance
  - $250M in Education Technical Assistance Act
- NIH-$1.5B in funding for renovating research facilities
- DOE-$18.5B in new allocations, $800M for bio-initiatives, $1B for sustainability and efficiency
- NSF-$2.5B in new allocations, $200M for facilities modernization
State of Michigan Revenue Forecasts

Possible stimulus package backfill-1 yr. only

Consensus '08-09
Revised '08-09
Preliminary '09-10

$8.9
$8.3
$8.1

$ in billions

Source: Michigan Joint Revenue Projection
Budget balanced to $9.7B expenditure budget through revenue sharing and other adjustments
2007-08 MSU All Funds Revenue

Total Revenue: $1.75B
2007-08 MSU All Funds Revenue

- Appropriations-$391M (Reduction of 10% possible)
- Grants & Sponsored Programs-$340M (Currently ahead of last year)
- Tuition and Fees-$460M (Elasticity concern)
- Auxiliary Enterprise-$273M
- Gifts & Endowment Additions $100M (Some institutions experiencing 10% contraction)
- Investment Income-$66M ($34M GF income stable, endowment trust proceeds declining)
- Departmental Income-$127M

Total Revenue: $1.75B
2007-08 MSU All Funds Revenue

2009-10 state funds augmented by stimulus package (one year only)

Appropriations-$391M (Reduction of 10% possible)

Grants & Sponsored Programs-$340M (Currently ahead of last year)

Stimulus package supports facilities and deferred maintenance

Tuition and Fees-$460M (Elasticity concern)

Auxiliary Enterprise-$273M

Gifts & Endowment Additions $100M (Some institutions experiencing 10% contraction)

Investment Income-$66M (Some institutions experiencing 10% contraction)

Departmental Income-$127M

Total Revenue: $1.75B
Fringe Benefit Concerns
2008-09 Budgeted General Fund Expenditures

- Other University Services: $185,621,644
- Fringes: $155,282,629
- Administrative Units: $96,487,219
- Academic Units: $502,608,509

Total Budget: $940M

Note next page for additional detail.
Compensation Information

- Personnel costs represent the largest segment of the budget, at approximately $648 million or in excess of 70 percent of the total

- $493 million represent salary expenses

  MSU ranks 7th in the Big Ten in total employment

- $155 million represent fringe benefit expenses

  Major components include:

  - Health Care      $67 million      Long term growth rate 9.7%
  - Retirement       $41 million      Long term growth rate parallels salary growth
  - Social Security  $32 million      Long term growth rate parallels salary growth
Health Care Information

• Note that health care costs represent the single largest category of growth in the MSU budget.

• Health care expenses have grown from less than one percent of the general fund budget in 1970 to approximately 7.5 percent today

• Over the past four decades general fund expenses for health care have increased from $0.6 million to approximately $67 million, across all funds including research employee healthcare expenses now exceed $100 million

• Taking the last twenty five years, health care cost have increased by 9.7 percent annually and by 8.8 percent over the past ten years despite being under national benchmarks for 5 of the last 7 years

• Nationally health care equates to 16 percent of gnp and is expected to reach 20 percent in the near future

• The US spends more per capita on health care than any other country, yet for health outcomes we rank between 20th and 30th in the world
Finance and Endowment
MSU Asset Classes

Total Managed Assets - $1.8B

- Securities Lending - $180M
- Liquidity Pool - $205M
- Intermediate Term Fixed Income - $205M
- Common Investment Fund - $1.2B
- Other - $19M
Common Investment Fund Elements and Projected Performance

Fiscal Years (Ending June 30)*

<table>
<thead>
<tr>
<th>Year</th>
<th>CIF Market Value</th>
<th>CIF Book Value</th>
<th>CIF Undistributed Income</th>
<th>Inflation Component</th>
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<tbody>
<tr>
<td>2004</td>
<td>$597</td>
<td>$248</td>
<td>$108</td>
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<tr>
<td>2005</td>
<td>$845</td>
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<td>2006</td>
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<tr>
<td>2011</td>
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<td>$1,006</td>
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<td>$290</td>
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<tr>
<td>2012</td>
<td>$1,286</td>
<td>$1,031</td>
<td>$359</td>
<td>$-</td>
</tr>
</tbody>
</table>

*Values per the July 1 CIF participant list through July 1, 2008

**Return assumptions: 0%, 2009; 2%, 2010; 5%, 2011; 7%, 2012
**MSU Debt Overview**

- **Total debt outstanding is roughly $518m**
  - $481m is variable rate debt swapped to fixed rate
  - $31m is traditional fixed rate debt
  - $6m unhedged variable rate

Total Principal Outstanding as of 9/30/08
- $518
  - Tax Exempt 96.7%
  - Taxable 3.3%

“All-In” Weighted Cost of Capital as of 6/30/08:
- Tax Exempt 3.2%
- Taxable 3.2%
A History of Preserving Value

- Inadequate state support -- state treasury empty... 1859
- State behind on appropriation payments -- college assets frozen ... 1932
- Faculty drafted – male enrollment plummets – faculty called upon to teach in areas outside of home discipline...1943
- Dow Jones falls 23% -- $900B in lost equity...1987
- Dow falls 30% -- near record unemployment -- auto industry restructured – national stimulus package totals $1T ... 2009