

2008-09 Budget Development Overview

- Proposed budgets for the University General Fund, Michigan Agricultural Experiment Station, Michigan State University Extension, and Intercollegiate Athletics total \$1,110.2 million

- General Fund Revenues
 - University General Fund 2008-09 budget established at \$940.0 million, an increase of \$64.0 million
 - State appropriation estimated at \$298.8 million, a 3.0 percent increase
 - Tuition and fees estimated at \$542.1 million based on an approximate 6.8% rate adjustment for resident undergraduate students
 - Provides contingent tuition and fee authority to the President with prior Board notification to reduce tuition and fees if over the year the State appropriation exceeds anticipated levels or to increase tuition and fees if the appropriations falls short of anticipated levels
 - Other revenues, which include indirect cost recovery and investment income, total \$84.8 million; this total includes a loss of \$2.0 million due to the state's withdrawal from participation in the Federal Family Education Loan Program
 - Tuition and fee structure simplified to improve transparency for students by incorporating matriculation and energy fees into a per credit hour structure; this will be phased in over three years starting with 2008-09

This action is recommended to:

Correct the increases that have occurred due to assigning percentage increases to the flat fees over time;

Recognize the number of students requiring one or two courses per semester to complete requirements or attain post baccalaureate certificates; and,

Assist students who are attempting to balance academic and work requirements during difficult economic times

The restructuring anticipates some change in the timing and number of courses in which students may enroll while preserving the basis for State monitoring of tuition and fee rates for resident undergraduate students

- General Fund Expenditures

- Base financial aid increases 11.6 percent to \$69.5 million
 - General increase includes funding to continue the Spartan Advantage program aimed at new students below the poverty level; additional support included to offset loss of \$2 million in FFELP revenue
- Utility costs are estimated to increase by \$6.3 million or 17.6 percent and fully funded at this time based on projected continuing international demand for energy
- Base budget reductions totaling \$3.5 million will be applied to all major units due primarily to escalating utility costs

Because it is not possible to mandate changes in individual behavior to assure significant energy conservation, it is critical to reinforce the importance of conservation through economic incentives to assure long term success
- Total employee compensation amounts increase \$28.3 million
 - 3.0 percent salary adjustments for faculty and academic staff, plus additional factors to address competitive position and market pressures
 - Others employee increases determined by collective bargaining agreements
 - Includes \$3.9 million for health care increases
- Supplies and services budget
 - Increase of 2.0 percent; allocated differentially across units
- Other operating funds increase \$1.7 million and include funding for library acquisitions, contractual services, and plant maintenance
- Long-term MSU financial framework funding of \$4.2 million for academic quality, \$2.5 million for administrative computing, and \$2.2 million for critical facility needs
- Development and external relations support increase by \$1.3 million
- Revenue-based initiatives increase by \$12.1 million including \$6.2 million to support Academic program and degrees offered by MSU Dubai, \$1.4 million for Human Medicine in Western Michigan, \$1.0 million for the Residential College in Arts & Humanities

- Funding from investment trusts will be committed to address just-in-time maintenance requirements and, with the \$2.5 million noted above, will continue development of the financial information system
- Continuation of the 1 percent program efficiency and reinvestment fund
- Michigan Agricultural Experiment Station
 - Michigan Agricultural Experiment Station 2008-09 budget established at \$45.5 million, a decrease of \$0.7 million
 - State appropriation estimated at \$35.5 million, an increase of \$1.2 million
 - Restricted funds, uncommitted funds from the prior year, are down \$1.9 million
- Michigan State University Extension
 - Michigan State University Extension 2008-09 budget established at \$51.1 million, an increase of \$0.2 million
 - State appropriation estimated at \$30.2 million, an increase of \$1.0 million
 - Restricted funds, uncommitted funds from the prior year, are down \$0.7 million
- Intercollegiate Athletics
 - Intercollegiate Athletics 2008-09 budget established at \$73.5 million, an increase of \$0.4 million, with recurring expenditures projected to increase by 3.0 percent

MICHIGAN STATE
U N I V E R S I T Y

MEMORANDUM

June 13, 2008

TO: Board of Trustees Finance Committee

FROM: Kim Wilcox
Fred Poston

SUBJECT: 2008-09 Budget Development and Implementation

RECOMMENDATION:

BE IT RESOLVED that the Trustee Finance Committee recommends to the Board of Trustees adoption of the Guidelines for Development of the 2008-09 Budgets (Budget Guidelines), which include significant revenue and expenditure variables and tuition and fee rates.

In accordance with these Budget Guidelines, the administration is directed to develop and implement the General Fund, Michigan Agricultural Experiment Station, Michigan State University Extension, and Intercollegiate Athletics budgets.



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FOR FINANCE
AND OPERATIONS
AND TREASURER**

BACKGROUND:

Attachment A summarizes revenues and expenditures for the 2008-09 General Fund budget. Attachment B contains student tuition and fee information. Attachment C is the summary of all proposed 2008-09 budgets.

The 2008-09 budget is designed to preserve and, where possible, build on MSU's strength and stature as one of the top 100 research universities in the world. Michigan State University continues to support the state and its people, enhancing economic competitiveness and quality of life. MSU's reach crosses international boundaries to share the best of Michigan with the world, and brings the best of the world to Michigan.

As our society and economy become increasingly global in character, access to a globally competitive education plays an ever more important role, both in each individual's potential for success and in collectively contributing to the State's economic vitality.

Budget Development Guidelines and Implementation Memo

June 13, 2008

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Action on the budget to preserve current accomplishments and realize the *Boldness by Design* vision is occurring during a period of economic uncertainty. In order to protect MSU's value to the state, a reasonable level of financial stability is required. The major sources of revenue to the University each fiscal year are the base main campus operating appropriation from the state and tuition and fees paid by students.

In the event anticipated state support is reduced, deferred, delayed, or withheld, contingent tuition and fee authority is provided to the President under paragraph 15 of the Budget Guidelines and Attachment B1 to protect the quality of MSU programs and simultaneously maintain student access in the event of a state revenue shortfall. The President will report to the Board, at a meeting prior to its implementation, any tuition and fee rate adjustment and any tuition and fee surcharge authorized by these Budget Guidelines.

In accordance with these Budget Guidelines, the proposed budgets for the General Fund, Michigan Agricultural Experiment Station, MSU Extension, and Intercollegiate Athletics will be developed and implemented.

Attachments

c: Board of Trustees Policy Committee
President Lou Anna Kimsey Simon
William Beekman, Secretary to the Board

GUIDELINES FOR THE DEVELOPMENT OF 2008-09 BUDGETS

These guidelines identify projected 2008-09 revenues and expenditures, including appropriations, tuition and fee revenues, financial aid, utility requirements, compensation parameters for faculty and other employee groups, continuation of the program efficiency and reinvestment fund, and a \$3.5 million budget reduction.

Overview

The investment our students, their families and the state make in an MSU education today will continue to pay dividends in the years ahead. By sustaining and enhancing MSU's internationally acclaimed educational programs today for our students, we also serve as a catalyst for their and Michigan's economic prosperity in the future.

Board action authorizes the administration to develop and implement 2008-09 budgets in accordance with the following guidelines:

Revenues

1. Estimated appropriations support is budgeted at 3.0 percent.
2. The general fund operating budget for 2008-09 will be developed based on revenue estimates of \$940.0 million. This amount includes \$298.8 million in appropriations; \$542.1 million in tuition and fees; and \$84.8 million in other revenues, which is composed primarily of investment income and indirect cost recovery as well as other small institutional sources, but which also reflects a reduction of \$2.0 million due to the state's termination of the Michigan Students First Program. Additionally, there are pass-through allocations of \$12.1 million in revenue-based initiatives and \$4.2 million in framework revenue.
3. Tuition rates for resident undergraduates will increase by approximately 6.8 percent reflecting the following:

Stewardship 1.2%	Includes: Critical Space: 0.44% Computing: 0.50% Advancement: 0.26%
Health Care 0.3%	
Faculty Recruitment & Retention 0.4%	
Utilities 1.0%	
Financial Aid 0.6%	
Appropriations Backfill 1.2%	
Baseline Adjustment 4.0% All aspects of budget	Reductions/Savings: -1.9%
<small>* 4% adjustment based upon the HEPI average for the past five years</small>	

Over the past decade, MSU has made a series of internal budget reductions totaling approximately \$70 million and has effected further reallocations of \$44 million to make programs more responsive to students' needs and the requirements of the emerging knowledge economy.

To simplify the tuition and fee structure and improve the transparency of rate structures for students, energy and matriculation fees will be incorporated into a per credit hour structure phased in over three years starting with 2008-09. Rates are calculated from a restructured base which takes into account student credit loads and reporting requirements.

Value to our students results from world-class programs and access supported by financial aid, built on an effective history of and continuing commitment to cost containment. As technological and scientific advances continue at an ever-accelerating rate, MSU must continue to improve undergraduate and graduate education, hiring cutting-edge faculty and providing the necessary technology and infrastructure to assure that students are able both to participate in and lead development of the new knowledge-based economy.

Expenditures

4. Major expenditure increases will include funding for student financial aid; utilities and new space; employee compensation; supplies, services, and equipment increments; a \$3.5 million base budget reduction; and continuation of the 1 percent program efficiency and reinvestment fund. Specific expenditure recommendations are:
 - a. Regular student financial aid increases of \$7.2 million, or approximately 11.6 percent, inclusive of \$1.0 million for the third cohort of the Spartan Advantage, a program for new resident undergraduate students entering Fall 2002 and later whose resources are below the poverty level.
 - b. New utility and facility-related funding increases total \$6.3 million, including approximately \$6.1 million of adjustments due to a 17.6 percent increase in continuing utility costs; and \$0.2 million of new space requirements.
 - c. Employee compensation adjustments of approximately \$28.2 million, including \$6.4 million for benefits expenses and \$5.8 million to annualize the 2007-08 salary increments.
 - i. Faculty and academic staff salary adjustments will be determined based on merit. The general components of the raise are noted below; more specific information is included in the annual faculty and academic staff raise guidelines developed by the Office of the Provost.

Salary adjustments for faculty at 3.0 percent and academic staff at 3.0 percent are to be based on merit. Additionally, a faculty competitive position fund totaling \$2.3 million (plus benefits) is available to help faculty salaries remain competitive in the Big Ten. This fund is to be administered at the college level. As in past years, an additional 0.5 percent is recommended for market adjustments administered centrally and targeted for ranked faculty but open to all faculty and academic staff. All raises will be effective October 1, 2008.

- ii. Stipend ranges for those graduate assistants holding research or administrative appointments will increase by 3.0 percent. Stipend increases for individual assistants will be determined by the employing units. The tuition waiver and graduate assistant health care costs are updated to recognize planned increases, for an overall adjustment of approximately 3.2 percent. 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 for student labor pay ranges will be increased by 3.0 percent. Similarly, returning student employees will receive a 3.0 percent increase. This increase is sufficient to address the mandated increase to the minimum wage that will take effect October 1, 2008, and reflects the importance that MSU has always placed on work as a component of institutional financial aid packaging.
 - iv. Rates for undergraduate and professorial assistants will be increased in parallel with student labor adjustments.
 - v. Salary and wage adjustments for most other employee groups are subject to collective bargaining agreements.
- d. An increment for supplies, services, and equipment of \$1.6 million, an increase of approximately 2.0 percent. Unit allocations can be differential, based upon identified programmatic need.
 - e. Funding for development programs is included at \$1.0 million and related public relations at \$0.3 million. This allocation allows development efforts to continue at the current level.

- f. An increment for other budgetary adjustments of \$1.7 million, which includes funding for debt service and other general university purposes.
 - g. Continuation of the 1-percent program efficiency and reinvestment fund. Reinvestments will address normal year-to-year programmatic adjustments. Over the past ten years, internal reallocations totaling approximately \$44 million have been implemented across campus.
 - h. Continuation of the \$10.4 million Technology/Teaching and Learning Fund. As in previous years, allocations from this fund will be made on a nonrecurring basis.
5. Expenditures for new revenue-based initiatives of \$12.1 million include the following:
- a. Academic program and degrees offered by MSU Dubai, \$6.2 million;
 - b. Special academic programs, including Broad College of Business graduate programs, \$1.0 million;
 - c. Human Medicine in Western Michigan, \$1.4 million;
 - d. Osteopathic Medicine, \$0.9 million;
 - e. Virtual, Off-Campus, and other programs, \$1.7 million; and
 - f. Residential College in Arts & Humanities, \$1.0 million.
6. Continuation of the framework increments of \$4.2 million is budgeted, derived from the fourth year of the new student fee differential initiated in Fall 2005.
7. Critical space at \$2.2 million represents half of the base increment required to pay bonds totaling between \$65 million and \$70 million to fund critical space needs. This amount is sufficient to pay projected 2008-09 debt service. An additional \$2.2 million will be proposed for the 2009-10 budget to fully fund this initiative. Continuation of annual increments for five additional years is anticipated to fully fund currently identified facility needs.
8. MSU framework funding is included at \$2.5 million for administrative computing requirements, the second year of a four-year commitment.
9. Base budget reductions totaling \$3.5 million will be applied to all major administrative units according to their reducible bases due to escalating utility costs.
10. As in previous budgets, projected 2008-09 revenues are augmented by \$2.5 million from funds appropriated in the 2007-08 budget.

11. Overall expenditures will increase by approximately 4 percent for baseline increments; 0.3 percent to address compensation; 0.3 percent for critical space; 0.6 percent for energy costs; 0.5 percent for instructional quality allocations; 0.5 percent for financial aid; and 1.1 percent for pass-through and other allocations, including revenue-based initiatives.
12. General Fund expenditures over the 2008-09 fiscal year will be based on the budget, and upon completion of the current year, resources carried forward for subsequent expenditure. Carry forward amounts will be noted in the 2008-09 financial statements.
13. The 0.5 percent tax on auxiliary income derived from off-campus sources initiated in 2007-08 increases, in accordance with the original plan, to 1.0 percent in 2008-09. These funds are committed to continue development of the financial information system.

General

14. Other university budgets, including those for the Michigan Agricultural Experiment Station, 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.
15. Realized gains from maturing previously established endowment trusts will be allocated to fund just-in-time infrastructure requirements and costs for the new financial information system on a continuing basis. Expenditures will be reported annually as part of the financial statements. Other sources of funds for these expenses include the 1.0 percent tax noted in paragraph 13 and debt financing.
16. In the event anticipated State support is reduced, deferred, delayed, or withheld, contingent tuition and fee authority is provided to the President under Attachment B1 to protect the quality of MSU programs and simultaneously maintain student access in the event of a state revenue shortfall. The President will report to the Board, at a meeting prior to its implementation, any tuition and fee rate adjustment and any tuition and fee surcharge authorized by these Budget Guidelines.
17. Attachment C contains the summary of proposed budgets for the General Fund, Michigan Agricultural Experiment Station, Michigan State University Extension, and Intercollegiate Athletics.

**Michigan State University
2008-09 Budget Guidelines**

Attachment A

	2007-08 <u>Budget</u>	2008-09 <u>Proposed Budget</u>
Revenues		
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Beginning Base	\$876.0	\$876.0
State Appropriations		8.7
Student Tuition and Fees		38.5
Other Investment Income		2.5
FFLEP Income Reduction		(2.0)
Estimated Revenues		<u>\$923.7</u>
Framework Revenue		4.2
Revenue Based Initiatives		12.1
Total Est. Revenues		<u><u>\$940.0</u></u>
Expenditures		
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Beginning Base	\$876.0	\$876.0
Financial Aid		7.2
Salary/Compensation		28.2
Utilities/New Space		6.3
Supplies/Services		1.6
Other Operating		1.7
Development/Public Relations		1.3
Critical Space		2.2
Administrative Computing		2.5
Base Budget Reduction		(3.5)
Estimated Expenditures		<u>\$923.5</u>
Instructional Quality		4.2
Revenue Based Initiatives		12.1
Total Est. Expenditures		<u><u>\$940.0</u></u>

MICHIGAN STATE UNIVERSITY
2008-09 Proposed Tuition and Fee Schedule

Rate Structure	Resident		Nonresident	
	Per Semester	Per Credit	Per Semester	Per Credit
Undergraduates				
Admitted Fall 2005 and After Lower Division		\$311.00		\$826.25
Continuing Lower Division		\$286.75		\$802.00
Admitted Fall 2005 and After Upper Division		\$342.75		\$853.75
Continuing Upper Division		\$318.25		\$829.25
Masters		\$434.00		\$892.75
Doctoral		\$434.00		\$892.75
Lifelong Education		\$434.00		\$568.00
Special Block Fees				
Broad MBA	\$10,219		\$14,576	
Human and Osteopathic Medicine	\$10,136		\$21,874	
Extended Medical Curriculum	\$6,946		\$14,775	
Medical Scientist Training Program	\$7,057		\$14,835	
College of Veterinary Medicine (CVM-8)	\$10,238		\$21,272	
CVM Clinical Year - Fall & Spring	\$9,052		\$18,938	
CVM Clinical Year - Summer	\$6,415		\$12,636	
Medical Scientist Training Program	\$6,653		\$13,519	

Fees per Semester	Full-time	Part-time
Matriculation and Energy Fee	\$442.00	\$312.00

NOTES:

1. Beginning Fall 2005, all entering undergraduate students were assessed a per-credit fee in addition to the regular rate. These students and all subsequent newly admitted undergraduate students will be assessed the "Admitted Fall 2005 and After" undergraduate rate. The "Continuing" rate will be discontinued at the end of Summer Semester 2010.
2. Special programmatic fees will be assessed to undergraduate juniors and seniors as follows: \$100 per semester (\$50 part-time) for students in science and technology intensive majors; \$100 per semester (\$50 part-time) for students in health sciences majors; and \$200 per semester (\$100.00 part-time) for students in the Broad College of Business.
3. All students will be assessed a Matriculation and Energy fee of \$442 per semester (\$312 part-time).
4. Student tuition and fees include university support for student health services.
5. Part-time students are defined as those enrolling for four credits or less per semester.
6. Per semester fees include the matriculation, information/technology, infrastructure/technology, and energy fees.
7. The Engineering Program fee is established at \$461 for full-time status (\$281 part-time except \$0 for summer) and applies to upper division and graduate level Engineering students.
8. Block fee for Teacher Certification Internship year is \$5,070 for resident students and \$9,826 for nonresident students. This rate includes the matriculation, infrastructure/technology and energy fees.
9. Tuition and fees for special programs and courses will be determined administratively, based on programmatic considerations.
10. A registration fee of \$25 per semester will be assessed on all international students except those enrolling in Graduate Studies in Education Overseas.
11. College of Education Masters, Doctoral, and Educational Specialist students will be assessed a special fee of \$33 per credit hour in addition to general tuition and fees applicable to all graduate students.
12. Matriculation and Energy Fee are included in the Special Block Fees.

CONTINGENT TUITION AND FEE AUTHORITY 2008-09
Exhibit B1

In adopting the Guidelines for Development of the 2008-09 Budgets (Budget Guidelines), it is the expectation of the Board that MSU's 2008-09 base main campus operating appropriation from the State will be \$298.8 million and that the State will not defer, delay, or withhold any payments due to the University as part of its 2008-09 base main campus operating appropriation from the State. The tuition and fee rates in the Budget Guidelines are established by the Board in reliance on the timely payment of the anticipated amounts from the State.

In the event the University's 2008-09 base main campus operating appropriation from the State is less than \$298.8 million, the President is authorized to raise tuition and fees by a rate up to that sufficient to offset, on an annualized basis, the loss of expected State support and to provide the additional financial aid which students will need because of this tuition and fee increase. Alternatively, if the University's 2008-09 base main campus appropriation from the State is more than \$298.8 million, the President is authorized to reduce tuition and fees by a rate that will reflect, on an annualized basis, the additional support received from the State.

Further, in the event that the State defers, delays, or withholds any part of any regularly scheduled 2008-09 base main campus appropriation payment to the University, or the State takes any other action that reduces or postpones, on a nonrecurring basis, or changes the traditional schedule for, the payment to the University of any part of its 2008-09 base main campus operating appropriation, the President is authorized to implement a tuition and fee surcharge to generate additional revenues up to the amount needed to make the University whole for the financial impact of the lost or delayed payments. Any such surcharge shall be for a specific period of time and shall be discontinued once the University has been made whole for the impact of the lost or delayed payments. Any such surcharge may be calculated to occur over a period of up to three years to moderate the impact of the surcharge on students during any one semester or academic year.

The President will report to the Board, at a meeting prior to its implementation, any tuition and fee rate adjustment and any tuition and fee surcharge authorized by the Budget Guidelines. It is the Board's expectation that any such tuition and fee rate adjustment and any such tuition and fee surcharge will be implemented promptly after the need for such an adjustment or surcharge becomes clear, generally in the next semester for which bills reflecting the adjustment or surcharge can then be issued. No tuition and fee adjustment or surcharge shall be implemented retrospectively for any semester for which bills have already been issued.

CONTINGENT TUITION AND FEE AUTHORITY 2008-09
Exhibit B1

CONTINUED

The Board notes that the contingent tuition and fee authority provided to the President under the Budget Guidelines is intended to protect the quality of MSU programs and maintain student access through appropriate financial aid in the event of a revenue short-fall from the State. It is also, and primarily, to preserve the integrity of the budget established by the Board, in recognition that the two primary sources of revenue for the University are tuition and fees paid by students and the annual base main campus operating appropriation from the State, and that they are interdependent. As in past years, cost containment measures and measures designed to optimize revenues from sources other than the State and tuition have been built into the Budget Guidelines. Therefore, the potential for mid-fiscal year cuts by the State in the resources it provides to the University necessitate granting the President authority to respond by generating sufficient additional tuition and fee revenues to protect the University's long-term financial health and its high standing in the academy, for the benefit of its students, alumni, faculty, staff, and other members of the University community.

**MICHIGAN STATE UNIVERSITY
2008-09 BUDGETS
Overview**

Attachment C

ESTIMATED REVENUES	State Appropriation	Federal Funds	University Funds	Other	Restricted	2008-09 Total	2007-08 Total
University General Fund	\$298,800,000		\$641,200,000			\$940,000,000	\$876,000,000
Michigan Agricultural Experiment Station	35,016,086	5,076,503			5,452,037	\$45,544,626	46,222,845
MSU Extension	30,201,969	10,529,714		5,629,501	4,774,978	\$51,136,162	50,922,504
Intercollegiate Athletics				73,133,400		\$73,500,000	73,133,400
Total Estimated Revenues	\$364,018,055	\$15,606,217	\$641,200,000	\$78,762,901	\$10,227,015	\$1,110,180,788	\$1,046,278,749

ESTIMATED EXPENDITURES	2008-09 Total	2007-08 Total
University General Fund	\$940,000,000	\$876,000,000
Michigan Agricultural Experiment Station	45,544,626	46,222,845
MSU Extension	51,136,162	50,922,504
Intercollegiate Athletics	73,500,000	73,133,400
Total Estimated Expenditures	\$1,110,180,788	\$1,046,278,749
		\$63,902,039

NOTE: Exclusive of FY08 carry forward funds.